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ECONOMIC DEVELOPMENT
1966-68

REVIEW AND TRENDS

Ceylon

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PART I

ECONOMIC PROBLEMS AND POLICIES 1966 and 1967

ECONOMIC PROBLEMS AND POLICIES—1966 AND 1967

THIS volume is in three parts. Part II presents the accounts of the Ceylon economy in the form of a national economic budget. It sets out the national accounts of the nation in respect of 1966 and estimates the behaviour of the economy in 1967 and 1968 taking into account the impact of the Government budgets for 1966-67 and 1967-68 as instruments of economic policy. These accounts provide a more thorough quantitative framework than has hitherto been available for forecasting as well as for planning. Part III of the publication deals with the Government's role in the development effort and outlines briefly the rationale underlying the several programmes for which provision has been made in the budget for 1967-68. Part I is of an introductory character. It gives the highlights of Ceylon's economic experience during 1966—the unprecedented fall in export earnings and the problems and achievements of economic policy in the context of these difficulties. It also summarises the prospects for the more immediate future.

II

The foreign exchange budget that was drawn up for 1966 incorporated some of the objectives and priorities of national planning. The budget made larger import allocations for virtually all categories of goods relevant to increasing production. At the same time it scaled down import outlays on consumer goods to a minimum consistent with essential needs and took maximum advantage of the possibilities for import substitution. The enhanced scale of the import programme was made possible by the export receipts expected for the year and the additional external resources mobilised through negotiations from several sources.

Ceylon's economic recovery was, however, setback by the exceptionally sharp drop in export earnings during 1966. The drop which amounted to Rs. 240 million,[1] or 13 per cent, relative to 1965 was well beyond expectations although some decline in export prices was anticipated. Both prices and volumes of some of the major exports were affected. The price of tea fell by 5 per cent during the year, the decline being much steeper in the second half. This was compounded by a 10 per cent decline in the volume of tea exports. Production itself declined by 13 million pounds compared to 1965, but, even more significant, exports fell by 49 million lbs. due to a strike in the private sector towards the end of the year. Exports of the three coconut products declined by 10 per cent in price and by 20 per cent in volume. Rubber alone registered an increase in total earnings with a rise of 12 per cent in export volume more than off-setting a 1 per cent decline in price.

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[1] According to Customs Data of export shipments. In terms of receipts and payments data the fall was Rs. 235 million.

Import prices, on the other hand, continued the upward trend manifested in recent years and increased by 9 per cent during 1966. Ceylon's terms of trade, taking export and import prices together, deteriorated as much as 13 per cent in 1966. Earlier, in 1963, Ceylon's terms of trade had declined by 9 per cent and although there was a mild recovery in 1965, the deterioration since 1962 has been as much as 22 per cent[1]. These figures provide an indication of the adverse external environment with which the country has had to contend in planning to meet its economic goals.

As may be expected, the decline in exports slowed down the growth in real Gross Domestic Product to a bare 1·9 per cent in 1966. With a population increase of 2·3 per cent, this spelt a decline in per capita terms. There were, however, two encouraging features in the national accounts for the year. Production for domestic use—including industrial and agricultural production—increased faster than population, viz. : by nearly 4 per cent in 1966. Capital formation too increased, not merely absolutely but as a proportion of Gross Domestic Product. Total capital formation at current prices (in both the public and private sectors) increased by 8·4 per cent relative to 1965. As a proportion of gross domestic product, total capital formation increased from 13·5 per cent in 1965 to 14·4 per cent in 1966.

The difficulties which beset the export sector did, nevertheless, pose serious problems for planning. Economic policy had to be adapted to meet the crisis in external earnings. More particularly, it was necessary to safeguard the import programme as far as possible so as to avoid a total disruption in supplies ; to protect the enhanced levels of investment and capital formation projected earlier ; and to continue with the implementation of the programme of monetary and fiscal stabilisation. In addition, difficulties in respect of food imports necessitated an intensified domestic effort on the agricultural front.

The safeguarding of the import programme for 1966 was a means of cushioning the economy against the adverse developments on the side of exports. The decline in export earnings in that year was, with the exception of 1952, the steepest in the post-war period. It occurred in a situation when external reserves were already low although they had been built up marginally in the latter part of 1965. Had the drop in exports been allowed to lead to a corresponding drop in imports—a drop, that is, of Rs. 240 million—a situation of complete disruption in supplies would have prevailed. In the event, the import programme for 1966 was substantially safeguarded[1]. Higher foreign exchange allocations were successfully made for the productive sectors and the total value of imports during the year attained the highest level in recent years[2]. Consumer goods, it is true, were restricted with severe curtailments or even total bans of non-essentials. But despite sporadic scarcities affecting individual items, supplies of essential items were maintained in the face of several strains on the distributive system.

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[1] The Central Bank terms of trade index (1958=100) for the period 1960–66 is given below :

Terms of Trade

1960 — 102
1961 — 94
1962 — 98
1963 — 89
1964 — 86
1965 — 88
1966 — 76

Source : Central Bank of Ceylon. Annual Report for 1966.

The maintenance of a high level of imports was made possible by the successful mobilisation of external resources and by the further running down of external reserves. The International Reserve of the Central Bank had fallen to Rs. 163 million by mid 1965. Over the latter half of that year, it was built up moderately and stood at Rs. 282 million at the end of December 1965. Over the same period, Ceylon's short term liabilities were also reduced by Rs. 53 million. These developments provided a margin—albeit a slender one—for cushioning the imbalance in external payments in 1966. During that year the International Reserve was drawn down once more by Rs. 139 million for meeting a deficit of Rs. 305 million in the current account of the balance of payments.

The financing of the residue was achieved through programmes negotiated by the Government with external agencies. Net drawings from the International Monetary Fund against two Standby Agreements provided Rs. 71 million during the year. Other short term borrowings including borrowings out of credit arrangements negotiated with commercial banks abroad totalling Rs. 166 million were also made use of partially. Foreign Aid contributed Rs. 207 million, of which Rs. 132 million was Commodity or Programme Aid provided by countries under the programme sponsored by the World Bank.

The quantum of commodity aid, however, lagged behind expectations. A sum of Rs. 421 million was pledged following two meetings convened by the World Bank at the end of July 1965 and in May 1966. Arrivals of aid financed imports were, however, only Rs. 7 million in 1965 and, as already mentioned, Rs. 132 million in 1966[3], leaving a residue of Rs. 282 million to spill over into 1967, not taking account of any aid disbursements during 1967 under the programme initiated at the third meeting in April 1967. These

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[1] cf. "Foreign Exchange Budget," 1967 published by the Ministry of Planning and Economic Affairs, July, 1967.

[2] Import payments over the period 1961 to 1966 are shown.

	Rs. million		*Rs. million*
1961	1,794	1964	1,960
1962	1,906	1965	1,922
1963	1,869	1966	2,023

Source · Central Bank of Ceylon. Annual Report, 1966.

[3] Total aid arrivals under the 1st and 2nd aid programmes had, however, reached Rs. 227 million by the end of June, 1967.

delays were largely the consequence of procedural lags which proved to be particularly great in the first round of the new aid programme. Nevertheless, they aggravated Ceylon's difficulties since they undermined the basis on which the import programme was framed. Had aid flows been more rapid and closer to initial expectations Ceylon's external payments difficulties would have been easier despite the shortfall in export earnings. The decline in external reserves and recourse to short-term borrowings would have been correspondingly reduced.

The response of policy to the crisis in external earnings was not confined to safeguarding the import programme. In one important area, at least, the crisis proved a spur to greater domestic effort and has paved the way towards a strengthening of the basic structure of the national economy. Agricultural production received a strong stimulus by the halving of the rice ration towards the end of 1966. This step was taken against the background of a shortage of rice in the world market and Ceylon's inability to procure the supplies of imported rice needed for the maintenance of the earlier ration of two measures (roughly four pounds) per person. A vigorous drive on the agricultural front had already been instituted as a cornerstone of Government policy. But action on the rice ration created an atmosphere favourable to even more intensive endeavours. The price of rice in the open market strengthened considerably giving a firm incentive to increased production. The production of other foodstuffs as substitutes for rice also received a fresh stimulus. The Maha rice crop harvested in 1967 was, in fact, an all time record.

The reduction in the rice ration whilst stimulating local production benefited the country's balance of payments outlook and the Government's budgetary position. A total of about 500,000 tons is now required for distribution under the ration annually. The impact of the new ration on the balance of payments would depend on the extent to which this requirement could be met out of procurements of domestic rice by Government rather than by imports, as well as the extent to which the consumption of imported wheat flour increases. However, since the support price for domestic rice is higher than the imported price—a margin which is being progressively reduced with the continued rise in imported prices—rupee outlays on the subsidy will vary directly and foreign exchange outlays inversely with the proportion of domestic rice distributed under the ration.

The impact of the new ration on budgetary outlays and on imports is illustrated by the estimates of the net food subsidy[1] account for the Government financial year 1967-68. The provision for net food subsidies for 1967-68 is Rs. 217·5 million as against the original provision of Rs. 307·3 million for 1966-67. The cost of the food subsidy next year has been affected by the rise in the external prices of imported foodstuffs, especially rice where c. & f. prices already range from £ 46 to £ 49 per ton in 1967 compared to an average of approximately £ 40 during 1966. Had the rice ration remained as before the cost of net food subsidy next year would have been well over Rs. 400 million in the background of rising import prices. On the other hand had import prices remained stable the cost of the food subsidy in 1967-68 on the basis of the present ration would have been substantially below the Rs. 217·5 million provided for.

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[1] After offsetting profits from flour and sugar.

There is little doubt that even when allowance is made for the expected rise in import prices, the burden of food subsidies on the government budget has declined substantially. The estimated cost of the Food Commissioner's vote in 1967–68 of Rs. 217·5 million includes a payment of Rs. 52·4 million as import duties for rice, flour and sugar. If the subsidy vote is calculated net of such duties it declines to Rs. 165·1 million or only 5·6 per cent of the total expenditure of Government [1].

The measures taken to strengthen the Government's fiscal position helped to realise another major policy objective—the avoidance of marked imbalance in the monetary fiscal field despite an unfavourable external situation. A process of inflationary expansion of the money supply, through the medium largely of excessive budget deficits, had for long been a feature of Ceylon's economic situation. In 1965 a stabilisation programme was initiated and continued into 1966. Although the steep decline in exports was not anticipated when the programme was formulated the Government did not allow its basic features to be undermined by adverse external developments. In the actual out-turn, the expansionary deficits in the Government budget were a little higher than originally anticipated largely on account of shortfalls in revenue from Customs duties. Nevertheless they remained substantially below the magnitudes reached in most of the previous years [2]. In fact, the restraints on

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[1] The changing cost of net food subsidies net of import duties on rice, flour and sugar and their share of total expenditure, both current and capital, is shown below :

(Rs. million)

Year	*Net Food Subsidy (Net of duties)*	*Total Expenditure*	*%*
1962–63	201	2,180	9·2
1963–64	312	2,513	12·4
1964–65	247	2,571	9·6
1965–66	238	2,422	9·8
1966–67 (Original estimate)	256	2,843	9·0
1967–68 (Estimate)	165	2,927	5·6

[2] The expansionary deficits in Governments budgets (including changes in U.S. Aid Counterpart Funds) have been as follows :

(Rs. million)

Year	*Deficit*	*% of Total Expenditure*	*Year*	*Deficit*	*% of Total Expenditure*
1959–60	251	13·5	1963–64	163	6·5
1960–61	234	11·8	1964–65	35	1·4
1961–62	190	9·2	1965–66	122	5.0
1962–63	162	7·4	1966–67	110	3·9

the budget deficit and the curbs on excessive commercial bank credit to the private sector, together with the decline in external reserves and net accruals to Rupee counterpart funds from the aid programme, resulted in an actual contraction in the money supply during 1966 for the first time in 9 years.

The Government's overall monetary-fiscal policy led without doubt to a dampening of inflationary pressures on the economy and prevented a spiralling of prices. Supplies of consumer goods in particular had necessarily to be closely regulated in the background of foreign exchange scarcity. This could well have resulted in steep increases in the general level of prices. Although prices did move upward during 1966 there was no evidence of any marked upsurge in the general price level. Rather, price increases often reflected supply shortfalls in specific commodities, partly as a result of erratic movements in imports. That the kind of general increase in prices associated with a markedly inflationary situation was absent, was undoubtedly due to the dampening of overall demand by the tight curbs on monetary expansion.

The observance of restrictive limits on monetary expansion through fiscal deficits was not, at the same time, brought about by reductions in the Government's development expenditure. On the contrary development expenditures were expanded to levels higher than had ever been reached before. Budgetary expenditure on capital works increased from Rs. 473 million in 1964–65 to Rs. 529 million in 1965–66 and is estimated to be Rs. 596 million in 1966–67 on the basis of revised estimates. The estimate for 1967–68 after taking account of estimated under expenditure of 15% is Rs. 667 million[1]. The effectiveness of development expenditures is not, of course, merely a matter of their quantum. An improvement in the direction and quality of investment has also been made in the manner described in a later section. At the same time, private sector activity was also stepped up—through larger releases of foreign exchange, revised tax concessions, changes in land policy, and other means. The virtual standstill in new investment activity in the industrial sector which had persisted since 1963 was broken by means of approvals given to joint ventures with foreign participation which provided a substantial proportion of their external financing needs[2]. In addition, provision has been made for releases of foreign exchange to local investors during 1967 for new industrial ventures out of Ceylon's own exchange resources and out of external finance to be obtained from the World Bank by the Development Finance Corporation.

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[1] Total budgetary provisions for capital works have consistently exceeded actual expenditures resulting in sizeable percentages of under-spending. However, the policy goal is to step up actual expenditures. In practice this has involved the need for making total budgetary provisions in excess of likely actuals. This is occasioned by the need to allow implementing agencies sufficient flexibility and room for manoeuvre in reaching higher levels of actual expenditures. This might result in a rise in the percentage of under-spending but the implications of this are not the same in situations where total budgetary provisions are being expanded sharply as compared to situations in which they are virtually static. In the latter case an increase in percentage under-spending would signify a decline in performance, i.e., in actual spending.

[2] Since the issue of the White Paper on Foreign Investment in April, 1966, 29 investment proposals have been already approved and several others are being processed.

The strengthening of initiatives in the development field through the acceleration of productive activity in the public and private sectors did help to moderate the contractionary impact of the decline in export receipts on incomes and employment in the economy.

III

The safeguarding of the import programme, the acceleration of the food drive, the strengthening of the budgetary structure through modification of the food subsidy, the avoidance of marked overall inflationary pressures, and the stepping up of development activities in both the public and the private sectors in the background of an unprecedented shortfall in export earnings were results derived through the conscious pursuit of policy objectives. The repercussions of the drop in exports did, however, manifest themselves in various ways. The producers of export products were directly affected by the drop in prices and export volumes, although in the case of tea there was some compensation by way of the rebate on export duties levied on low priced teas. More generally, the decline in export earnings left Ceylon with a much weakened position in respect of her external accounts. The maintenance of the import programme in 1966 meant a severe draft on an already low level of external reserves and an increase in short term liabilities. This meant that Ceylon had to fashion her policies and programmes for 1967 with hardly any margin left for manoeuvre. The easements that might have been possible in respect of supplies of imported items in 1967, including certain categories of consumer goods, had inevitably to be postponed. Major problems of foreign exchange management were posed for 1967. In the absence of adequate reserves, receipts and outlays of foreign exchange had necessarily to be kept in close step. At the same time the smooth flow of supplies had to be ensured so as to minimise the danger of sporadic shortages.

Despite the constraints referred to above, 1967 promises to show a marked improvement over 1966 in many respects. The Foreign Exchange Budget for 1967, published separately, has provided for a somewhat larger total of import allocations than in 1966 with an even stronger emphasis on the import requirements of the productive sectors. This has been made possible partly by an improvement expected in export receipts—as mentioned the volume of tea exports was exceptionally low in 1966—partly by drawings from the IMF under its compensatory financing facilities and standby agreement, and partly by greater accruals of foreign aid receipts. Although the Foreign Aid pledged for 1967 by the World Bank group of donor countries is not larger than the amounts pledged for 1965 and 1966, and although the major part of 1967 pledges will be disbursed in 1968, foreign aid receipts will still be considerable in 1967 on account of the spill over of aid pledged in 1956 and 1966[1]. Ceylon's aid receipts will also be augmented by disbursements under aid arrangements with the countries outside the World Bank Group.

The total of external resources available to Ceylon inclusive of foreign aid in 1967 did not, however, suffice by itself to provide adequate allocations for productive purposes. The foreign exchange requirements of private sector industry and of public corporations, the needs of the enhanced Government development programme and the rise in external prices of imported goods required, in addition, that exchange resources be conciously deployed for these purposes away from other uses. Accordingly, there had to be a rigorous pruning of all foreign exchange outlays, including outlays on consumer goods, deemed less essential, in order to increase allocations for the productive sectors. This must necessarily result in a degree of stringency in respect of supplies of these items. For essential foodstuffs and other consumer necessities, however, the allocations aimed at maintaining per capita supplies. Where the supply situation becomes aggravated by speculative action Government would need to intervene, as it has already done in the past, with effective counter measures. In the case of certain essential foodstuffs and textiles, supplies are made available to consumers at controlled prices through distributive arrangements established by Government.

An important feature of planning policy is the use of the foreign exchange budget as an instrument for attaining production goals. In the search for economies in foreign exchange, attention was naturally given to all those areas where there was a realistic prospect of substituting imports by domestic production. Often, a reduction or banning of imports has proved to be a more effective spur to local production than other inducements. The foreign exchange budget for 1967 attempted to utilise such opportunities. Mention has already been made of the reduction in rice imports and its repercussions on local production. A stimulus for the production of subsidiary foodstuffs was also provided by the total ban on imports of potatoes from May 1967, and the reduction in imports of onions and chillies by about 20 to 30 per cent over the year as a whole. The total foreign exchange savings made possible by import reductions in agricultural items other than rice is around Rs. 79 million. To safeguard the consumer, in some cases, e.g., chillies, a quantum of imported supplies is made available to consumers on a ration at approximately cost price. Supplements to the ration have to be obtained through purchases

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[1] Foreign Exchange Budget 1967—Published by the Ministry of Planning and Economic Affairs July 1967.

Estimated Foreign Aid disbursements in 1967 are made up as follows :

Commodity Aid	*Rs. million*
(*a*) Spillover	282
(*b*) New	75
Other Aid	60

of local supplies in the open market. The higher prices of such supplies provide incentives to producers and are often above the support prices fixed by Government.

The dovetailing of foreign exchange allocations with local production targets was also extended to industrial products. During 1967 local production of cement, tyres and tubes, steel, hardware, textiles, ceramics, etc., will increase substantially with the commissioning of newly installed capacity. In this instance, the strategy has been to reduce exchange allocations for imports of finished products and to increase allocations for the importation of the requistite production inputs. This procedure gives a new importance to the realisation of production targets. If production falls short of targets, shortages of supplies might occur since additional foreign exchange would not easily be available for filling the residual gaps. This consideration is a spur to implementing production programmes.

As mentioned before, although the strictest disciplines will continue to be enforced in the use of foreign exchange, with particularly strong restraints on inessential consumer imports, 1967 promises to be a considerably better year for the economy as a whole than 1966. Although there are yet no indications of a rapid recovery in export prices, total export earnings should be somewhat higher than in the previous year due to recoveries in export volumes. Production for the domestic market will continue to grow—probably at a faster rate than last year. The rice crop is expected to be an all time record at 53 million bushels of paddy and the output of other food crops is also likely to expand rapidly under the impetus of the Food Drive. An acceleration in the momentum of industrial production is also in prospect reflecting larger allocations for imports of raw materials, spares, etc., and the coming into production of newly installed capacity. As estimated in a subsequent section, Gross Domestic Product in 1967 might grow by nearly 4 per cent in 1967 as against 1·9 per cent in 1966 leaving room for an improvement in per capita product in contrast to the decline experienced in the last two years. Indications are that the overall growth rate of the economy will accelerate still further in 1968 although a slight slowing down is possible in 1969 unless certain foreign exchange constraints to growth, discussed subsequently, are removed.

IV

The longer term outlook for growth in the Ceylon economy is promising but it is affected by a limiting factor—the possibly slow growth of the country's import capacity over the period ahead. In the publication entitled " Development Programme 1966–67 " issued by the Ministry of Planning and Economic Affairs last year, a broad framework was provided of overall growth possibilities for the economy over a five year period 1966 to 1971. The outline indicated that an annual average growth rate of gross domestic product of more than 5 per cent over the period was feasible with a promise of an acceleration in rates towards the latter part of the period. The assumptions underlying this projection in so far as it relates to import capacity might not, however, be valid if the estimates made there about export earnings and net foreign aid have to be revised downwards. In this event, as will be shown below, overall growth possibilities will be dampened on account of the limitations set by shortages of foreign exchange.

The projection of export earnings made last year assumed that Ceylon could hope to increase total earnings from exports at about 3-4 per cent per annum on average due largely to expected increases in the export volume of the main export crops. Only a mild downward movement in prices was assumed. Subsequent experience, as well as more recent projections for tea, rubber and coconut show that in the absence of corrective international action global imbalances between supply and demand might develop with consequent downward pressures on prices. The problems affecting the world market for primary commodities were brought into particuarly sharp focus last year in the case of tea where prices declined particularly steeply. The world demand for tea is not contracting. On the contrary, consumption in the major importing countries is increasing annually. The problem is that the rate of increase in consumption is slow—possibly around 1 per cent per annum—due to the low income elasticity of demand for the commodity. At the same time, technological developments, and the existence of production opportunities in countries that are relative new comers to tea production hold out the prospect for an increase in production and in exports at a much faster rate than the growth of demand. In the absence of conscious action to keep supplies in step with demand the only mechanism of adjustment is a fall in prices.

The problems affecting rubber and coconut are of a different order with competition from synthetic and other substitutes playing an important part. But in all cases price trends are unfavourable and suggest a downward revision of export forecasts relative to estimates made earlier. These adverse developments might, of course, be modified or adjusted, by measures taken on several fronts. For example, global imbalances could be avoided by international agreements which endeavour to keep supply in step with demand. Again, demand itself could be increased through a variety of measures, particularly those which help in creating new markets and finding new directions of trade which result in a strengthening of total demand. Export receipts may, in addition be further augmented by local processing, e.g., the blending and packetting of tea. New lines of export could also be developed, covering for instance new agricultural exports, exports of manufactures, and tourism, to provide increasing supplements to the earnings from the traditional items. Most of these approaches have already been incorporated in Government programmes. But on account of the time lags involved, it would be unrealistic to imagine that such approaches could eliminate the problems that arise on account of the adverse trends that are already in evidence and thereby justify optimistic forecasts for, say, 1970 or 1971.

A second determinant of Ceylon's import capacity, apart that is from exports, is the net inflow of capital from abroad. Here again the projection last year assumed that foreign aid from the World Bank group of countries in the years ahead would conform to the assessment of Ceylon's needs made by the World Bank[1] at around $ 100 million gross per year. If actual pledges to be made by the donors in future years remain around $ 50 million gross, the estimate would require downward revision. At this level of gross aid contributions, net receipts of capital to Ceylon will in fact contract on account of debt service outlays that will become due on repayments of IMF drawings, on interest and amortisation of previous loans and supplier's credits and, to a lesser extent, on service charges on loans under the aid programme of the World Bank group itself.

The combined effect of a downward revision in export earnings and in net inflows of external capital, together with net payments for current invisibles, would be a virtual stagnation in import capacity, if not an absolute decline, by 1971. The problem facing Ceylon is how this could be reconciled with the achievement of an adequate rate of overall economic growth since growth, particularly industrial growth, requires rising imports of machinery and materials which cannot be made available from domestic production alone. If these requirements cannot be met, due to the shortage of foreign exchange, the targets of overall growth rates will have to be revised downwards, i.e. below the modest rates of around 5 per cent per annum.

There are essentially two ways in which the problem could be overcome and the constraint of inadequate import capacity relaxed, both of which need to be pursued in Ceylon's context. One way is by obtaining foreign aid in excess of the limited amount's assumed in the projections ; the other is by extending the domestic effort at import savings, particularly through import substitution, to the farthest limits practicable.

The case for additional external capital resources or foreign aid for Ceylon emerges clearly from the projections of import capacity. The estimate of additional aid requirements cannot, of course, be based on an assessment of needs irrespective of the domestic contribution that can be made towards meeting them. The international context has, in recent times, become increasingly unfavourable from the point of view of accelerating aid flows to developing countries and it would be unrealistic to believe that aid flows could be stepped up as a means of avoiding the most vigorous domestic efforts. The nature and scale of the domestic effort needed in Ceylon would be discussed presently. But the core of the case for additional aid for Ceylon is that with the best possible effort on the domestic front, the maximum import savings possible will still not suffice to provide the external resources needed for an adequate rate of growth in the context of a possible stagnation in import capacity. As mentioned, the problem is caused by adverse trends in export income, on the one hand, and on the other by the dwindling net receipts of external capital inflows that will accrue if gross aid commitments continue at present levels whilst debt service payments increase.

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[1] IBRD Report on "The Foreign Exchange Problem of Ceylon"—p. 11—published by the Ministry of Planning and Economic Affairs.

The case for additional external resources is further reinforced by another consideration. In Part II of the present volume it is shown that the total of savings needed to bring about an adequate growth rate would, even if potentially available through a successful effort at domestic resource mobilisation, would fail to be realised and to be translated into its counterpart of physical investment—because of the country's inability to provide the import content of such investment in the face of restrictive assumptions concerning net capital inflows. In such a situation the marginal impact of additional aid on the growth rate could be substantial indeed. In effect it would make possible the conversion of potential savings into physical investments.

Certain issues concerning foreign aid might be dealt with in passing in the present context. First, whilst it is true that Ceylon's dependence on foreign aid could be minimised with the strongest possible domestic effort, the residual gap in external resources must still be bridged by aid or capital inflows from abroad if the target rate of growth is to be achieved. A rapid rate of economic growth attained with the help of foreign aid would reduce, and stagnation increase, the country's future dependence on aid. Second, whilst the proper use of aid could build up repayment capacity, it is important for Ceylon that the terms of aid should be as soft as possible in order to keep the future debt service burden at a minimum. Countries denied adequate aid are often driven to using supplier's credits on hard commercial terms where the repayment burden becomes excessively heavy. Ceylon could use supplier's credits in moderation ; but they will be confined to areas where there is a prospect of favourable terms and where the soundness of the project has been well established.[1] With Government guarantees of repayment, this latter aspect is not always of primary concern to the commercial supplier. Third, what is pertinent in respect of the use of aid is not simply the specific item or project financed by aid but the character of the total programme for which aid is a supporting item. Given a sound and balanced total programme, the form of aid should be that which facilitates the implementation of this programme by speedy disbursement. This implies that commodity or programme aid could play as valuable a role in meeting Ceylon's future aid requirements as project aid[1].

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[1] Ceylon is already utilising supplier's credit financing for the following major projects : oil refinery, railway dieselization programme, Galle fisheries harbour, Maskeliya-Oya project stage 1, contracts 6 and 7, purchase of irrigation machinery.

As already mentioned, however, additional foreign aid is but one of the means needed to overcome the problem posed by inadequate import capacity. The parallel requirement is the maximum domestic effort. The restrictive effect of limited total import capacity on growth could be relieved to some extent by deploying a greater part of the limited total of foreign exchange resources available towards development needs away from other purposes. The scope for this depends on the extent to which imports for these latter purposes could be eliminated either by still further restraints on total consumption or by the substitution of imports through domestic production. Whilst the import programme has already imposed severe curbs on total consumption, there is fortunately considerable scope for further import subsitituion in Ceylon particularly in the food and consumer goods sector. It is the case that a substantial part—nearly half—of total import outlays are devoted to food and other agricultural imports. The domestic production of these items could clearly make possible the release of foreign exchange for industrial and other development needs.

It needs to be well recognised, however, that the implementation of this strategy on the scale necessary to make an impact on overall economic growth in the context of other constraints calls for extreme efforts on the domestic front and places the food drive in particular in the sharpest focus. On preliminary estimates—assuming that the present targets for rice and other food crops set for 1971 are realised (including a 6 per cent annual rate of increase in rice production) a saving of about Rs. 210 million would be possible on the present food import bill of about Rs. 840 million. Similarly, import savings are also possible in the industrial field with prospects of self-sufficiency in such items as textiles, cement, etc. Savings of the order of about Rs. 75 million by 1970 have been depicted for other consumer goods. The result of these savings in agriculture and industry is to make possible increasing releases of foreign exchange for raw materials and imports of other industrial goods needed for development despite the inadequacy of total import capacity.

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[1] It is sometimes thought that commodity or programme aid is utilised for current needs or consumption as against project aid which is used for development. All aid, however, whether commodity or project aid is part of the external resources available for the financing of total imports. Whether aid is put to good use or not depends not on the specific items procured with aid but on the soundness and the priorities inherent in the import programme as a whole. Aid applied for the purchase of capital goods or projects will not be promoting development if the net outcome is a release of the country's own exchange resources for increasing consumption imports. On the other hand, aid even if applied for consumption imports would help finance development if the exchange released thereby is utilised for importing capital goods. This is a principle long recognised in the field of government finance where the practice of earmarking tax receipts for specific uses has long since been dispensed with. Commodity or Programme Aid is capable of far speedier disbursement than project aid and is therefore a flexible instrument of assistance for developing countries provided it is rigorously linked to an import programme that is closely geared to development. It is, of course a fact that the aid programmes of donor countries are more closely adapted to project aid than to programme aid. Accordingly, Ceylon intends to obtain an increasing proportion of future aid receipts through project aid ; but this will not in any way eliminate the need for a proportion of commodity aid as well on future aid programmes. Another aspect of the problem of aid terms is the tying of aid to purchases in the donor countries. This is clearly disadvantageous to the recepient since it precludes purchases in the cheapest market. Tied aid unfortunately is the rule rather than the exception today and is a feature of almost all bilateral aid programmes extending to project aid and commodity aid alike. Resources from multi-lateral agencies however, are not tied in the same fashion. Supplier's credits on the other hand, are even more restrictive than tied bilateral aid since the use of funds, is tied to purchases from a single supplier.

But savings from import substitution alone will not suffice to solve the problem of inadequate import capacity. Apart from the fact that the estimates leave little room for shortfalls in the ambitious targets set, and that the imported inputs required may not be easily provided within the constraint of total import capacity, the overall growth rate made possible by the deployment of exchange resources through import substitution would still be insufficient. Even on the magnitudes of savings depicted, sufficient exchange would still not be available for the rising imports of capital goods needed for achieving acceptable rates of overall growth, i.e. rates in excess of say 4 per cent a year. This reflects the need for additional capital inflows as discussed earlier. But it also underlines the fact that even on the assumption that the additional external capital needed is forthcoming, Ceylon has to place great store on its own efforts at domestic production and resource mobilisation. A failure on this front will undermine Ceylon's future prospects severely. On the other hand, given the success of the domestic effort and a measure of support by way of additional external resources the outlook is certainly promising.

V

The several themes of relevance to Ceylon's development effort have to be knit together into a planning framework which could be utilised for operational purposes and for decision making. In the absence of such an instrument there is no means of checking that the several objectives and policy goals adopted for the various sectors of the economy are consistent with each other and with the needs of the economy, on the one hand, and with the availability of resources both domestic and foreign on the other. At the same time, the numerous dimensions provided by an overall framework have to be translated into concrete and identifiable programmes and projects if the framework is not to be an empty shell.

A considerable volume of work has been done in the Ministry of Planning and Economic Affairs simultaneously on each of these fronts. On the side of overall planning a provisional 50 sector input-output matrix is well advanced in preparation. This will provide a sorely needed basis for projecting development possibilities in a self-consistent manner, and for assessing the interactions of one sector on another in the process of growth. It will also provide a more vigorous and detailed basis than is available up to now for assessing future requirements of manpower, imports, public and private savings, foreign aid, and so on.

At the same time, work has progressed in the field of individual sector programmes and projects. The objective has been to improve the quality of investment in Ceylon by establishing priorities within sectoral programmes and by ensuring that individual projects have been properly formulated and appraised. The several project identification missions of the World Bank have been of value in helping to bring into better relief the main priorities in the sectoral programmes of individual Ministries.[1] A course on project evaluation techniques was organised in Ceylon under the auspices of the United Nations Industrial Development Organisation and the personnel trained have been utilised for the formulation and appraisal of over 30 projects included in the Ministry development programmes. A Seminar on Development problems was also conducted under the auspices of the Organisation for Economic Co-operation and Development and has resulted in arrangements for continuing technical collaboration. At the same time, the Ministry of Planning and Economic Affairs has prepared, with the assistance of an UN expert, a Manual on project evaluation specially adapted to local conditions for the guidance of individual Ministries. Planning work at both the overall and the project level will have further support with the establishment of a United Nations Special Fund Project for economic and industrial planning.

The sections that follow outline, successively, both the overall aspects of the Ceylon economy and the content of specific development programmes. The National Economic Budget presented in the next section is the precursor to the more extensive input-output framework referred to earlier. It has itself involved a comprehensive re-casting of the national accounts data so that the latter might serve as an instrument for forecasting the behaviour of the several aggregates of the national economy following the specific decisions incorporated in the Government Budget, the Foreign Exchange Budget, and so on. It is also an instrument for working out the implications for the government budget of given objectives in respect of the other aggregates of the national economy. In this sense it takes the form of an annual plan.

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[1] Separate technical teams have covered the following sectors : Agriculture, Irrigation, Power, Fisheries, Public Sector Industry, Education, Transportation and Planning Institutions and Development Finance.

The following reports by IBRD Teams have been published :

1. The Foreign Exchange Problem of Ceylon.
2. Recent Economic Trends—Ceylon.
3. Recommendations on Economic Planning in Ceylon.
4. Report on the Needs of the Power Supply Industry of Ceylon.
5. Draft Report of the Agricultural Project Identification Mission to Ceylon.
6. Report of Reconnaissance Mission to Ceylon in connection with State Industrial Corporations.
7. Report of a Bank Transportation Mission.
8. Draft Report of the Fisheries Project Preparation Mission to Ceylon.
9. Report on a Preliminary Reconnaissance Survey of Education in Ceylon.

The character of the National Economic Budget is outlined in some detail in the Section to follow. Two major factors brought out by the study may, however, be highlighted here.

The first is that on present projections, although the growth rate of gross domestic product is estimated to increase in 1967 and 1968, the acceleration may not continue into the future unless a shortage in foreign savings is overcome. Foreign savings in 1967 will be higher than what would be possible on the basis of an annual aid programme of $ 50 million on account of the spill-over of aid from previous years. Once the spill-over is exhausted, and account is taken of repayment obligations, net capital inflows will decline on the assumptions made resulting in smaller foreign savings and reduced investments. To avoid this there is, as already discussed, a clear need for an acceleration of external capital inflows beyond the levels depicted.

The second fact is that on account of the pattern of investment in Ceylon the amount of capital required to generate a unit of output is exceptionally high resulting in relatively poor returns to given volumes of investment. The " capital output " ratio turns out to be 5 : 1 on the basis of recent historical experience instead of the ratio 3·25 : 1 assumed earlier as a policy goal, which is itself higher than the ratios prevailing in certain other countries. The reason for this is the strong emphasis given to economic and social infra-structure investments in Ceylon with long periods of gestation rather than to the more immediately productive investments. Clearly, a shift in the pattern of a given volume of investment—considering particularly the fact that existing infra-structure facilities are substantial—will result in a faster rate of economic growth in the short to medium term period.

Section III of the present publication outlines the content of government development programmes with emphasis on the directions in which these have been reoriented in accordance with planning priorities. A shift of government investment in a more productive direction is already in evidence in next year's capital budget. The development activities of government, for which provision has been made in the Budget for 1967-1968 are reclassified and presented as sectoral programmes rather than as a miscellany of Ministry votes. Questions concerning improvements to the pace at which programmes are implemented are also discussed.

PART II

A NATIONAL ECONOMIC BUDGET—1968

A NATIONAL ECONOMIC BUDGET—1968

THIS section represents a first attempt at drawing up a National Economic Budget for Ceylon for 1968. A National Economic Budget, it has to be mentioned at the outset, is something very different from the annual budgets to which one has been usually accustomed, viz. the Government's Revenue and Expenditure Budget and the Government's Foreign Exchange Budget. The National Economic Budget seeks to exhibit the implications of each of these Budgets for the economy as a whole in terms of national accounting aggregates. In other words, it attempts to indicate the effect of these budgets on National Income, Investment, Government Consumption, Private Consumption, Imports and Exports. It leads up in doing so to a statement of the resources available to the economy as a whole and their distribution among various uses. In this form the National Budget may be termed a Prognosis Budget, i.e. it seeks to forecast the probable results of independently determined Government Budgets.

The technique of national budgeting, however, may also be used to determine the form which Government Budgets should take if, for instance, predetermined policy goals regarding output and consumption are to be achieved. This amounts to an inversion of the logical procedure employed in a Prognosis Budget and may be termed a Programme Budget. Such programme budgets are essentially annual plans which seek to implement the Government's policy intentions in the coming year through appropriately designed instruments.

The statistics for any year will show a particular distribution of available resources, *viz.* : Gross Domestic Product plus Imports, among three competing uses, Investment, Consumption (both public and private) and Exports. This distribution is the outcome of an infinity of individual decisions—of producers to invest determined by the interaction between market prospects and the availability of crucial inputs such as foreign exchange, capital and skill ; of the consumption habits of individuals ; of Government decisions to spend on capital formation and current expenditure ; and of export programmes. In some cases—with export prospects in the case of Ceylon—the outcome is largely determined by external forces over which the country has no control.

But within the limits set by the external environment the Government does retain a significant measure of flexibility in deciding to bring about one distribution of resources rather than another. Although many economic decisions are taken by individuals, there are certain statistical and causal regularities which permit the Government to influence the final outcome. Thus, private consumption and hence private savings usually bear a fixed relationship to private disposable income—i.e., the income that is available to people to spend after taxes and net transfers to the state. Consumption can, therefore, be influenced by Government tax policy through its effects on disposable income. Similarly, investment is determined to a large extent by the allocations made in the foreign exchange budget for the import of capital goods. Yet it is important to ensure consistency between the two sets of decisions. The Government may allocate to both the private and public sectors a substantial amount of foreign exchange for capital goods, which carries with it the potential for a substantial volume of investment. But unless that investment is matched by domestic savings equal in amount to the difference between the potential investment and the net flow of assistance from abroad, or foreign savings, it will simply not be realised. It then becomes the responsibility of the Government's tax policy to see that disposable incomes are so manipulated as to produce the required savings either in the private or the public sector.

This does not, however, mean that Governments are totally free to ordain any availability and distribution of national resources. It is also important to appreciate the limitations imposed on Government policy. Any Government is trammelled by the chains of the economic structure it has inherited from the past and there are difficulties therefore in increasing output sharply in the short run. The growth of output or Gross Domestic Product (G.D.P.) in any year is usually thought of as a function of investment in previous years. In other words, the higher the investment this year, the higher is output (or what is the same thing, income,) next year. But the relationship linking output and investment—the capital output ratio—is fairly inflexible in the short period, the first year or two of a plan, until such time as it can be made to change by altering the productivity of the " project mix " in any year's investment. If for instance, the Government would like G.D.P. to grow at 3 per cent next year and the capital output ratio deriving from the past is 5 : 1, it must arrange to invest 15 per cent of this year's income[1].

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[1] Assuming for convenience a one year lag between investment and output. If and when, on the other hand, it succeeds in reducing the capital output ratio to 3 : 1 by increasing the productivity of its investments, the Government need only invest 9 per cent of this year's income in order to reach the same growth rate of 3 per cent next year. Or to put the point another way, the same investment effort as before—an investment of 15 per cent of income—will now raise the growth rate from 3 per cent to 5 per cent next year.

Now this year's income will already have been determined by last year's investment which is known. A knowledge of this year's expected exports and net foreign aid receipts will determine the amount of foreign exchange available for this year's imports ; and since available resources must balance their uses one has in effect determined this year's total consumption, since all other elements in the balance—this year's output (or income), investment, exports and imports—will have been estimated. Total consumption of course consists both of the consumption of Government and of private individuals. Since the expected consumption of Government this year is fairly readily ascertainable, the problem boils down to finding out whether the implied target for private consumption *this* year—the implied target that is if a decision to raise output by 3 per cent *next* year and therefore to invest 15 per cent of *this* year's income—is a reasonable and realistic one. It might be that the target implies a fall in per capita private consumption this year compared with last year which will alsmost certainly have to be rejected as being imcompatible with political reality. In any event the private consumption target has to be such that it will be reached out of the disposable income left to the public, on known propensities to consume[1], after Government tax policies have been allowed to take effect. In other words, this year's private consumption target must be consistent with the scope available for tax policy to influence disposable income in the desired direction. This in turn depends on how far the economy has in the immediate past been near the ceiling of its " taxable capacity " beyond which point an increase in tax rates fails to increase tax collections and so forth. If the " right " level of disposable income is not reached, the planned consumption target this year will not be realised and hence the planned investment target this year will be prejudiced along with next year's output target. Since the output target is fairly readily translated into an employment target, this affects next year's employment goals as well. In such a situation it becomes necessary to modify the goals, in order to secure the desired consistencies.

The point that is being underlined is that a Government committed to planning has always to follow through the implications of setting one set of policy goals—namely, a particular growth of total output or G.D.P. and of associated employment—for the achievement of another and an equally valid policy goal, the growth of consumption per head. Given all other elements in the situation at any one time these two goals are in potential conflict. A higher rate of growth of output, comparing one year with the next, will always mean a lower rate of growth of current consumption than would otherwise be possible.

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[1] The technical expression for the quantitative relationship between consumption and disposable income.

The present exercise is in two parts. On the basis of national accounting inter-relationships existing in 1966, and the already determined foreign exchange budget for 1967 and the revenue and expenditure budget for 1966-1967, it seeks to forecast the probable outcome for total output, i.e., Gross Domestic Product, consumption, savings, investment and employment this year. Having determined in the light of this analysis feasible goals in these areas for 1968 and 1969, it then proceeds to determine the form the Government's policy instruments have taken or should take—i.e., the form of the Government Budget for 1967-68 and the foreign exchange budget for 1968—if these goals are to be realised.

I

The Outlook for 1967

The starting point of the forecast for 1967 has been the organisation of Ceylon's National Accounts for 1966 in an interrelated format similar to that set out in last year's Development Programme.[1] The difference is that the classificatory system employed this time is the somewhat more detailed system recommended by the O. E. C. D.[2]

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[1] Ministry of Planning and Economic Affairs : *The Development Programme 1966-67*, July 1966, p. 10-17.

[2] *See OECD—A Standardised System of National Accounts, Paris, 1958.* The system contains six interlocking accounts and has been introduced as a framework for the future presentation of National Accounts in Ceylon. The data for 1966 must as yet be regarded as highly provisional. For instance Gross National Product at market prices comes to Rs. 7,904·2 million in contrast to the figure of Rs. 8,117·0 million published in the Central Bank's Annual Report, a discrepancy of Rs. 213 million. The work in the Ministry has at all times been co-ordinated with that of the Central Bank and the Department of Census and Statistics and in many crucial respects has leaned heavily on information provided by these bodies. At the same time it has been thought desirable to incorporate independent estimates of production made in the Ministry in an attempt to shift the basis of national accounting in Ceylon away from the "expenditure" approach in current use which dates back to 1952, to one based on the "production" side of the national income and expenditure account. The justification for this is that serious planning for the future presupposes an accurate knowledge of the present sectoral distribution of income—i.e., of value added by each production sector, which can only be approximated to in more or less arbitrary fashion by the "expenditure" approach to compilation. (See Appendix 'A' for a further elucidation of the problem.) Work now in progress in the Central Bank, the Department of Census and Statistics and the Ministry is bound to result in still further revisions of the national accounts series. It has nevertheless, proved necessary to use the present provisional estimates for 1966 as a basis for forecasts because it represents a combination of data from a number of sources in a consistent manner.

Output

The concept of national income most relevant for the assessment of domestic performance in increasing output is the Gross Domestic Product (G.D.P.) at factor cost in the prices of the base year,[1] and the first step in the forecast for 1967 is the determination of that portion of the increase in Gross Domestic Product attributable to the investment of 1966. The relationship between net investment and output—the capital output ratio—has been estimated at 5.1 : 1 on the basis of the relevant historical and other data. (Tables E and D). This represents the average productivity of the investment mix prevailing in 1966 and its relatively high value reflects the fact that the bulk of net investment, some 55 per cent as indicated in Table D is in infrastructure and "overhead" activities whose immediate contribution to output is relatively low. Whereas in these areas it takes between 5-10 units of investment to yield one unit of additional output in the following year—the more productive investments require only 3-5 units of investment per unit of output. The average of these ratios—5.1 : 1 yields an increase of Rs. 186.9 million over the 1966 level of Gross Domestic Product at factor cost of Rs. 7,549.7[2] million or an increase of Rs. 2.5 per cent.

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[1] This measures the gross real rewards—wages, profits, rents, and interest—that are created by and potentially accrue to the various factors of production in the course of an year's productive activity. Some of it spills abroad as a return for the contribution made by foreigners to domestic production. When allowance is made for this, one gets Gross *National* Product (G.N.P.) at factor cost. Some of it fails to accrue to the citizens of the country because the value of her real production for export is diminished by unfavourable price changes over which she has no control. When Gross National Product at factor cost is reduced by the effect of such price changes one gets a measure of the real Gross National *Income* that remains available to the citizens of the country for their use and which is therefore a ready index of their economic welfare. But the productive effort of the country is measured not by what remains behind after these deductions but by what was produced in the first place—i.e. by the real Gross Domestic Product at Factor cost, and it is the increase in this which we shall first attempt to forecast. At the same time the movement of real Gross National Income will be indicated so as to bring out the welfare implications of growth.

Before proceeding further, however, a word of caution is necessary as to the precise meaning of the kind of forecast that is being attempted. A substantial element of the increment to output next year is related to this year's investment via the capital-output ratio. This element is to be regarded not as actually realisable but as the trend value about which the actual increments to output induced by investment will settle annually, provided an entire programme of investment is put into effect for a period of years. The effect of using the capital-output ratio to determine the increment to output, results, in other words, in a presentation which smoothens out the growth path of output over a plan period. Departures from the trend value can result from the time path of previous investments and the specific lags—which may be more than one year—after which each particular investment yields its contribution to output. The capital-output ratio averages these lags and proceeds "as if" the investment of one year produces output in the next. The more specific assumption is that the average time lags of investments before and after this year's investment is the same.

[2] Made up of Rs. 7,349·6 million (National Income), Rs. 158·1 million (Depreciation), Rs. 42·0 million (Net factor Income Payments). *See* Table G (I).

Gross Domestic Product can also be expected to increase as a result of factors independent of the previous year's investment. In general, every economy contains a measure of slack, with the result that output can grow merely by the improved utilization of capacity. In the case of an agricultural economy such as Ceylon, output is also a matter of the quality of the harvest which in the short run is affected by the nature of cultivation practices, the adoption of modern technology and the weather. The increment to output has therefore in principle to be further grossed up by a factor that reflects these considerations. The present forecast has been deliberately biased in a conservative direction. Credit has been taken only for the value added element, i.e. wages and returns to farmers, in the expected increment to rice production resulting from this year's food drive ; and for the fuller utilization of capacity in industries using imported raw materials, the arrivals of which are expected to increase this year by 7 per cent[1] on the present import programme. These two elements alone account for a further increase in real G.D.P. of 1 per cent or Rs. 74.6 million making for a total increase of 3.5 per cent over the 1966 level.

Allowance has also to be made for a third factor in estimating the increment to real G.D.P. The export forecast for 1967 has had built into it a price reduction. In other words had prices remained at 1966 levels the value of exports would have been Rs. 27.2 million in excess of the value presently expected to be reached in 1967. Consequently in estimating the real G.D.P. in 1967 at 1966 prices, one has to increase the 1966 G.D.P. by this amount as well or by another 0.3 per cent making for a total increase of 3.8 per cent. Since population is expected to grow at 2.4 per cent this means that real G.D.P. per head will have grown by 1.4 per cent. Table A presents the three elements determining the growth of G.D.P. in a convenient tabular form.

This performance of real G.D.P.—an increase of 3.8 per cent—would, if achieved, mean a considerable improvement over that recorded[2] in recent years and is largely attributable to the substantial volume of investment that occurred in 1966. This investment was supported by foreign assistance which financed roughly a third of all capital formation. The assumptions of the forecast are as already noted extremely conservative and imply a fairly low productivity of capital. This stems, as mentioned, from the predominance of infrastructure investment in the total and suggests an important policy goal for the future if the same investment effort is to generate still higher rates of growth of output. The macro-economic framework contained in last year's Development Programme lays down such a goal for an average capital output ratio of 3.25 which could only be reached by moving gradually away from " overhead" investment in a more immediately productive direction.

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[1] For instance output in the bakery sector is expected to grow by 40 per cent as a result of an enhanced level of flour imports in 1967 as compared with 1966.

[2] The percentage increase in real G.D.P. in 1966 was 1·9 per cent and in 1965, 1·5 per cent. *See* Central Bank *Annual Report* 1966 Table II (A) 12, p. 34.

The radical tightening up of project evaluation procedures in the public sector by the dissemination of discounted cash flow techniques described elsewhere in this document, also has far reaching implications for the improvement of the productivity of public sector investment in the future. The decision taken this year to modify the Government's irrigation investment programme as a preliminary to concentrating energies on the Mahaveli Project constitutes another decisive step in this direction. These are, of course, in addition to the inducements that already exist for the promotion of capital formation in the private sector where traditionally investments have absorbed less capital.

Having determined the index most relevant for an assessment of economic performance—G.D.P. at factor cost—it is a fairly straightforward matter to arrive at the remaining national income concepts. Table B sets out the movements in real Gross National Income—the index relevant for the measurement of economic welfare—which grows in 1967 by 3.2 per cent while table C indicates the losses suffered by the economy through export price declines. Table G I presents G.N.P. at market prices along with National Income. G.N.P. increases from Rs. 7,904.2 million to Rs. 8,194.8 million in 1967 or by 3.7 per cent ; national income grows by 3 per cent from Rs. 7,349.6 million to Rs. 7,587.3 millon[1].

Public Consumption and Savings

The next step in the forecast is the determination of the Government's Appropriation Account. This involves a reclassification of the Government Revenue and Expenditure Budget into national accounting categories on the lines set out in Table G III together with a further adjustment for local Government transactions.[2] Government Consumption rises by 7 per cent from Rs. 988.5 million in 1966 to Rs. 1,057.9 million in 1967. At the same time an encouraging new trend is to be noted—the improvement in Government savings from Rs. 20.6 million in 1966 to Rs. 46.7 million in 1967. As indicated in Table G III this reflects, on the expenditure side, the stabilisation of gross subsidies as a result of the changed food subsidy policy, and on the revenue side the increase in Government income from property and in Indirect Tax receipts.

Private Consumption and Savings

The third step in the forecast for 1967 is to estimate private disposable income on the basis of the Government budget for 1966–67. The procedure indicated in Table G VII is to add to National Income all Government transfers to households while deducting Government's share of National Income together with all transfers from households to Government, all household transfers abroad, and direct tax payments.

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[1] These income concepts allow for the terms of trade effect due to the fall in export prices but at the same time in the case of G.N.P. includes the effect of additional indirect taxation on market prices.

[2] *See* Table J for a more detailed presentation.

The income that remains in peoples hands after these adjustments can have only two uses—as private consumption expenditure and as private savings. Private consumption can be readily estimated on the basis of its historical relationship to disposable income and comes to Rs. 6,319.3 million. This represents an increase of 2.8 per cent over the 1966 level so that with population growth at 2.4 per cent consumption per head is expected to grow by ½ per cent.

The residual component of disposable income—net private savings[1]—can again be split into corporate and household savings on the basis of the historical coefficient linking the latter to disposable income. Household savings grow marginally from Rs. 284.9 million to Rs. 290.1 million ; and corporate savings by slightly more from Rs. 283.2 million to Rs. 296.9 million.

Capital Formation

All the elements have now been assembled for the estimation of Gross Domestic Capital Formation. This must definitionally equal the sum of net domestic and foreign savings, together with depreciation. Private savings as already estimated in Table G VII together with Government savings deriving from the Government Appropriation Account in Table G III sum to net domestic savings. Foreign savings—net capital transfers to the nation—derive from the rest of the World account in Table G VI and are exogenously determined ; depreciation comes from Table G I.

These elements are set out in the Consolidated Capital Account in Table G V. It will be seen that foreign savings rise from Rs. 367.5 million in 1966 to Rs. 574 million in 1967 and are expected to finance a substantially larger proportion of capital formation than in 1966, 43 per cent as compared with 33 per cent. This reflects the disbursement during the year of the remainder of the aid negotiated under the first two Aid Programmes[2]. The proportion of capital formation financed by gross private savings i.e. net private savings plus depreciation declines from 65 per cent to 55 per cent though as indicated the absolute figures grow slightly. Government savings now finance 3 per cent of capital formation as contrasted with 2 per cent in 1966 and reflects the absolute increase already noticed from Rs. 20.6 million to Rs. 46.7 million. Given the savings propensities of households and the limitations to the availability of assistance from abroad, Government savings becomes the principal factor determining the future quantum of capital formation and is therefore a crucial policy variable.

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[1] When depreciation is added we get gross private savings which increase from Rs. 726·2 million in 1966 to Rs. 750·9 million in 1967 or by 3·4 per cent.

[2] Of the total aid pledged of Rs. 421 million Rs. 227 million had arrived as at the end of June leaving a balance of Rs. 194 million due to come in during the rest of the year.

An important consequence of the increased role of foreign savings in financing capital formation in 1967 deserves mention. As indicated in Table D, productive investment—the residual that remains after the claims of overhead and infra-structure investment are satisfied—increases markedly in 1967 with the availability of additional foreign finance for investment. Any sudden addition to investment finance would, of course, have this effect quite irrespective of the source of finance, but it so happens that given the rigidities in the way of expanding domestic savings quickly, any immediate increase in productive investment is usually the result of additional foreign savings. The consequence of this is of course to raise the average productivity of investment or what is the same thing to depress the overall capital-output ratio. The point is further sharpened if one looks further ahead at the 1968 pre-budget picture in Table D when the sudden diminution of foreign capital inflows combined with a budget deficit reduces the volume of productive investment that can be financed.

Employment

One final element of the 1967 forecast remains to be elaborated—its implications for employment. A preliminary manpower budget for 1966 set out in Table H indicates that 3.3 million of the 1966 labour force of 3.8 million or about 90 per cent are gainfully employed. On the basis of the relationships prevailing in 1966 between the wage bill, G. D. P. and employment, the economic growth expected in 1967 can be assumed to increase employment by 61,000 people. The annual increments to employment rise to around 82,000 in 1968 and 80,000 in 1969.

II

In framing the National Economic Budget for 1968, the Government Budget was geared to an explicit set of policy goals. The Government capital formation figure was decided upon on policy grounds having regard to the maintenance of the high level of Government investment launched last year. A policy decision to maintain monetary and financial stability necessitated a set of revenue measures that would reduce the unfinanced gap to manageable proportions. In order to focus better upon the extent of the difference that the Government Budget is likely to make to the total situation, the analysis will proceed in two stages. In the first, an attempt will be made to indicate the outlook for the economy in 1968 in the absence of the new revenue proposals, i.e. on the basis of the budget as given in the preliminary estimates. The second stage of the analysis will indicate the planned total impact of the Budget on the economy.

The outlook for 1968 (Initial Estimates of Current Revenue and Expenditure)

The main implications of the Government Budget for 1967-68 as given in the preliminary Estimates[1], before the new revenue proposals, are indicated in Tables G III and G V. Government savings have fallen sharply to become negative—a dissaving of Rs. 45.2 million—reflecting principally a decline in Government income from property [2]. The negative level of Government savings is despite the fact that, on the expenditure side, a considerable degree of restraint has been exercised with the result that the growth of Government consumption has been less than in the previous year. This has been largely the result of the discipline introduced in the Five Year Framework contained in last year's Development Programme which prescribed a limit of the annual rate of growth of Government consumption to 4 per cent. Although this has in the event been exceeded by 1 per cent the effort made to adhere to the target at the stage of the preliminary discussions of the Budget estimates, has had the effect of reducing the growth of Government consumption by 2 per cent, as compared with the previous year's growth of 7 per cent.

Capital Formation

The impact of the negative Government savings before the new revenue proposals is transmitted directly to the Consolidated Capital Account in Table G V with the result that capital formation would have had to slump sharply from Rs. 1,371·6 million in 1967 to Rs. 1,176·4 million in 1968 assuming no recourse was had to inflationary finance. This occurs despite the increase that will have taken place in Private Savings from a total of Rs. 568.1 million in 1967 to Rs. 587·0 million in Table G VII. This means that real Gross Domestic Product in 1969 would, in the absence of the new revenue proposals, have failed to maintain the growth rate registered in 1968 and would have risen by 4·6 per cent as against 5·0 per cent (Table A, Column 1968 A). The 1968 outlook for capital formation would have suffered in any event as compared with 1967 if it has to be assumed that foreign aid receipts will be reduced from Rs. 574 million to Rs. 422 million. This will be the consequence of programme aid levelling off to an expected average annual amount of $ 50 million after the elimination during 1967 of the lag in disbursements under the first two aid programmes.

Given this assumption of external assistance, however the further growth of capital formation necessarily depends on the additional domestic savings effort in which the Government Budget plays a crucial role. Additional savings alone is not of course a sufficient condition for the creation of an equivalent addition to capital formation, for this has to be accompanied by the provision of the required foreign exchange inputs. However, the problem is further compounded by the fact that a substantial part of the savings effort will in any case have to be dissipated through a decline in export prices—which as shown in Table C totals Rs. 516·5 million in the period 1967–1971—so that the resulting growth in real output fails to be reflected in the growth of real income. Thus while the rate of increase of Gross Domestic Product rises from 3·8 per cent in 1967 to 5·0 per cent in 1968 and 4·6 per cent in 1969 on pre-budget assumptions (Table A) the corresponding growth of Gross National Income is only from 3·2 per cent in 1967 to 4·2 per cent in 1968 and 3·8 per cent in 1969 (Table B).

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[1] Based on the first print of the Estimates.

[2] The erratic behaviour of this latter magnitude over the period 1966-68 reflects principally the fluctuations in the proceeds of Government trading operations resulting from changes in the price of flour. Yet its components reveal certain encouraging trends notably the increases in the Revenue of Government Enterprises and of Interest and Dividends indicated in Table J, which relate to the principal areas of Government productive activity. If as expected the profitability of Government Corporations improves further with the new measures relating to pricing policy, this trend will be accentuated in the future.

The outlook for 1968 (The new Budget proposals)

It is against this background that the budget proposals for 1967–68 have been framed. Its primary task has been to raise the savings potential of the economy so as to increase the level of capital formation and sustain accelerated rates of growth, within the limits set to this process by the availability of foreign exchange for the import of the necessary capital goods. The proposals may be briefly summarised. On the expenditure side there is a rise of Rs. 60 million resulting from the increases in salaries and pensions. In national accounting terms this increase is divided between Government consumption (wages) and transfers to households (pensions). On the revenue side the principal increase occurs in the national accounting category of indirect taxation—the 9 per cent additional tax on import lincences (Rs. 80 m.) and the increased tobacco tax (Rs. 15m.). Direct taxation goes up as a result of the Rs. 15 million expected from Income Tax collections of which Rs. 10 million is estimated to fall on Corporations and the balance on Households; Government income from property rises as a result of the additional Rs. 30 million expected from the profits of Government Corporations. The columns headed 1968 B in Table G III set out the Government Appropriation account as revised in the light of these proposals.

The immediate effects of these proposals are two-fold. First they raise Government savings by Rs. 80 million so that they amount to Rs. 53·2 million in contrast to the dissaving of Rs. 26·8 million before the new proposals (Table G III). Second they leave private savings more or less unchanged through their effects on National and Disposable Incomes (Table G VII). Their combined effect is to support a larger volume of capital formation which rises as indicated in Table G V from Rs. 1,176·4 million to 1,254·8 million enabling a growth rate of 4·9 per cent of Gross Domestic Product in 1969, as compared with the 4·6 per cent attainable before the new revenue proposals.

This still means that the rate of growth of Gross Domestic Product will have fallen below the 5 per cent that will have already been attained in 1968. An attempt to budget for a higher rate of growth in 1969, given the foreign savings available, would have essentially meant budgeting for a higher level of Government savings in such a manner as not to lower expected levels of private savings, so that the total savings available for capital formation in 1968 would have increased. In practice this would have meant a reduction of Government consumption and current transfers even further below the levels attained, through the disciplines already imposed on subsidy and expenditure policy. But even assuming ample scope for manoeuvre in this direction, what is of crucial relevance for the translation of any additional savings into additional investment is the availability of the " right " level of additional imports of machinery, equipment, and constructional material, for which the foreign exchange will not be forthcoming on the basis of present export expectations and probable net foreign aid receipts. In other words the " import content " of any additional level of investment in 1968 achievable through potential domestic savings, simply cannot be accommodated within the expected foreign exchange availabilities for that year (*See* Table I).

The 1968 budget has therefore to be a "consistent" one. It must, that is to say, seek to determine a level of capital formation in 1968 that is not only desirable in the light of 1969 output goals but feasible within the limits set *both* by probable savings and probable foreign exchange supplies. The level of capital formation projected in 1968 is " almost consistent " in this sense and is effectively constrained by the foreign exchange bottleneck rather than a savings bottleneck. As Table I indicates the application of historical import coefficients to the main categories of national expenditure yields a foreign exchange allocation which is somewhat—by Rs. 128 million precisely—in excess of foreign exchange availabilities for 1968. This constitutes therefore a case for additional external assistance in 1968 of at least this amount over presently expected levels if potentially available domestic savings are to be transformed into productive investment. If the foreign component of total investment is taken to be 40 per cent, then the presently available external assistance of Rs. 422 million will require to be supported only by Rs. 639 million of domestic savings instead of the Rs. 833 million potentially available through domestic savings, in which case capital formation in 1968 will in fact fall from the initially projected Rs. 1,254·8 million to Rs. 1,061 million. Under these circumstances output in 1969 will grow by only 4·2 per cent (Table A, Column 1969 B) If on the other hand, Rs. 128 million of additional foreign financing is forthcoming all the available domestic savings will be utilised and a total investment of Rs. 1,383 million becomes possible in 1968 enabling a growth rate of 5·3 per cent in 1969 (Table A, Column 1969 D). The initially projected investment of 1968 of Rs. 1,254·8 million in Table G does not therefore represent an equilibrium position and will either fall or rise depending on the availability of the requisite foreign savings. A more ambitious domestic savings effort to sustain higher rates of growth would *pro tanto* require still greater flows of external assistance.

But of considerably greater significance in the long run than the immediate growth prospect is the commencement of progress in the budget towards improving the productivity of investment. As Table D shows the proportion of Government investment going to overheads and infrastructure purposes is rather less than in the previous year so that the average contribution of Government investment to output can be expected to be higher. The category of other productive investments increases by Rs. 60 million from Rs. 310 million to Rs. 370 (*see* Table D). This is only a beginning, and a further accentuation of the trend will have to occur before any appreciable impact on the growth of output takes place. If, however, external financing were to be forthcoming on the scale of 1967, the additional capital formation financed thereby—speaking now of the economy as a whole—would necessarily have occurred in areas of high productivity, so that the average capital output ratio of the economy would have turned out to be even still more favourable.

Conclusion

To summarise, two major elements dominate the economic outlook for 1968 and 1969. On the one hand a substantial domestic effort will have resulted in the containment of the growth of public consumption, an improvement in the productivity of capital investment in both public and private sectors, and in the creation of a significant savings potential in the economy sufficient to sustain a growth target of 5·3 per cent in 1969. On the other hand, the translation of this savings potential into productive investment depends entirely on the availability in 1968 of an additional Rs. 128 million worth of foreign exchange resources beyond what seems likely on present export projections and foreign aid assumptions. If export prices remain at 1966 levels and the aggregate losses of Rs. 95·3 million expected in 1967–68 (Table C) do not materialise, a very large part of this requirement in foreign exchange will be met through Ceylon's trading effort alone. On present export expectations, however, she will have to look to external assistance of this amount if the 1969 growth target of 5·3 per cent is to be achieved. This target is itself not an over ambitious one. Indeed in National Income terms it is almost an excessively modest one resulting in a growth of only 4·6 per cent. The section that follows presents the sectoral investment detail that underpins this target. It serves as an indication of the size of the effort under way to mobilise domestic resources. This effort would need, however, to be supported by complementary international action to ensure success.

TABLE A

GROSS DOMESTIC PRODUCT AT FACTOR COST

(*Rs. million at 1966 prices*)

	1966	1967	1968	1969[1]			
				A	*B*	*C*	*D*
Gross Domestic Product	7,549·7	7,838·4	8,230·4	8,610·5	8,577·1	8,632·4	8,669·0
% Increase over previous year	—	3·8	5·0	4·6	4·2	4·9	5·3
Absolute increase over previous year	—	288·7	392·0	380·1	346·7	402·0	438·6
due to							
Effect of previous year's Capital Investment	—	186·9	249·3	193·9	160·5	215·8	252·4
Effect of capacity utilisation	—	74·6	74·6	81·0	81·0	81·0	81·0
Effect of increment to real exports at 1966 prices	—	27·2	68·1	105·2	105·2	105·2	105·2
		288·7	392·0	380·1	346·7	402·0	438·6

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[1] For reasons explained in the text (page 32) domestic savings of Rs. 833 million in 1968 would not be converted into capital investment unless Foreign Savings amount to Rs. 550 million. On an expectation of Rs. 422 million in Foreign Aid in 1968 usable domestic savings would come to Rs. 639 million and therefore total capital investment would be Rs. 1,061 million in which case GDP would increase in 1969 to Rs. 8,577·1 million or by 4·2 percent as shown in column 1969B. However, if Foreign Aid amounts to Rs. 550 million, it would be possible to use all domestic savings, amounting to Rs. 833 million and achieve a capital investment of Rs. 1,383 million in which case GDP would increase in 1969 to Rs. 8,669·0 million or by 5·3 per cent as shown in column 1969D. Column 1969C does not represent an equilibrium (realisable) position.

TABLE B

GROSS NATIONAL INCOME AT FACTOR COST

(Rs. million at 1966 prices)

	1966	1967	1968	1969[1]			
				A	*B*	*C*	*D*
Gross Domestic Product	7,549·7	7,838·4	8,230·4	8,610·5	8,577·1	8,632·4	8,669·0
Less Net factor Income Payments abroad	42·0	60·0	85·0	112·0	112·0	112·0	112·0
Less Terms of Trade effect due to decline in export prices	—	27·2	68·1	105·2	105·2	105·2	105·2
Gross National Income	7,507·7	7,751·2	8,077·3	8,393·3	8359·9	8,415·2	8,451·8
% Increase over previous year	—	3·2	4·2	3·9	3·5	4·2	4·6

[1] See note to Table A.

TABLE C

ESTIMATED LOSS OF GDP 1967–71 DUE TO PROJECTED FALL IN PRICES OF EXPORTS FROM 1966 LEVELS

Rs. million

	1967		1968		1969		1970		1971		*Total loss for 5 years 1967–71*
Tea[1]	1,118·4		1,139·4		1,186·0		1,244·2		1,281·5		
Tea[2]	1,104·0		1,114·9		1,155·4		1,206·8		1,237·5		
Loss		14·4		24·5		30·6		37·4		44·0	150·9
Rubber[1]	331·1		346·9		365·0		383·1		400·0		
Rubber[2]	322·3		316·2		313·3		305·1		318·6		
Loss		8·8		30·7		51·7		78·0		81·4	250·6
Coconuts[1]	156·0		248·0		282·0		315·0		328·0		
Coconuts[2]	152·0		235·0		259·0		282·0		286·0		
Loss		4·0		13·0		23·0		33·0		42·0	115·0
Total loss		27·2		68·2		105·3		148·4		168·4	516·5

[1] Exports valued at 1966 prices.

[2] Exports valued at expected prices in each year.

TABLE D

COMPOSITION OF NET CAPITAL FORMATION

(% percentages, Rs. million)

	1966		1967		1968 *A*		1968 *B*		*Range of capital*
	Amount	*Share (%)*	*Amount*	*Share (%)*	*Amount*	*Share (%)*	*Amount*	*Share (%)*	*output ratio*
Infra Structure and Overhead Investment[1]	530·4	55	513·9	42	551·5	55	551·5	51	5·5 to 10
Productive Investment[2]	425·8	45	693·8	58	454·8	45	531·4	49	3·5
Total Net Investment[3]	956·2	100	1,207·7	100	1,006·3	100	1,082·9	100	4·9 to 5·5
Overall capital Output Ratio	5·1		4·9		5·5				

Source : Table E.

[1] Represents the sum of investment in Economic Overheads, Social Overheads, Transport and Housing in Table E.

[2] Represents the residual.

[3] Represents Net Investment in Table E.

TABLE E

PROFILE OF GROSS DOMESTIC CAPITAL FORMATION, 1966–1968

(*Rs. million*)

Channels	*Year*	*Investment*	*Capital output ratio*	*Expected increase in output*
	(1)	(2)	(3)	(4)
1. **Social Overheads**	1966	55·6		5·6
	1967	84·7	10	8·5
	1968	68·3		6·8
2. **Economic Overheads**	1966	53·0		6·6
	1967	73·8	8	9·2
	1968	90·5		11·3
3. **Transport**	1966	127·2		23·1
	1967	105·3	5·5	19·1
	1968	81·6		14·8
4. **Housing**	1966	294·6		29·5
	1967	303·2	10	30·3
	1968	311·1	10	31·1
5. **Productive Investments**	1966	425·8		122·1
	1967	640·7	3·5	182·2
	1968 A	454·8		129·9
	1968 C	531·4		151·8
	1968 D	659·4		188·4
6. **Net Investments**[1]	1966	956·2	5·1	186·9
	1967	1,207·7	4·8	249·3
	1968 A	1,006·3	5·2	193·9
	1968 C	1,082·9	5·0	215·8
	1968 D	1,210·9	4·8	252·4
7. **Depreciation**[2]	1966	158·1		—
	1967	163·9		—
	1968 A	170·1		—
	1968 C	171·9		—
	1968 D	171·9		
8. **Total**	1966	1,114·3		186·9
	1967	1,371·6		249·3
	1968 A	1,176·4		193·9
	1968 C	1,254·8		215·8
	1968 D	1,382·8		252·4

(A) Pre-budget expenditure and rates of taxation.

(C) Inclusive of revenue and expenditure measures in the Budget presented to the House of Representatives. (Col. 2) obtained from National Accounts Table G (V) items 16*a* (Social overheads), 16*b* (Economic Overheads), 16*c* (Transport), 16*d* (Housing). 16*e* (Productive investments), 8 (Depreciation) and 30 (Total gross addition to National wealth). (Col. 3) Capital output ratios for Social Overheads and Housing have been on the basis of comparable international data, for economic overheads from National Planning Council "*The Ten-Year Plan*", Table XI, item 8 p. 81, for Transport from a study made in MPEA "*Notes on Investments in Transport*" May, 1967, and for Productive investment from IBRD "*Recent Economic Trends in Ceylon*" May, 1967. p. 28. (Col. 4) obtained by dividing (Col. 2) by the relevant capital output ratio.

(D) Represents equilibrium levels of investment realisable with potential domestic savings of Rs. 833 million if inflows of external assistance rise from Rs. 422 million presently expected to Rs. 550 million.

[1] The overall capital output ratio is obtained by dividing the sum of all channels of investments by total output generated. The annual variation is due to the changes in the capital mix.

[2] Investment for replacement of capital is assumed not to produce fresh output.

TABLE F

GOVERNMENT CAPITAL EXPENDITURE

(*Rs. million, percentages*)

	1966–67	*per cent*	*1967–68*	*per cent*
1. Economic overheads	95·7	16·0	114·6	17·1
2. Transport	91·6	15·4	86·5	12·9
3. Social overheads (including housing)	98·1	16·5	100·6	15·0
4. Other productive investments	310·6	52·1	370·3	55·1
	596·0[1]	100·0	672·0[2]	100·0

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[1] After allowing for 10 per cent under expenditure.

[2] After allowing for 15 per cent under expenditure.

TABLE G

NATIONAL ACCOUNTS—CEYLON 1966–1968

I—National Income and Expenditure Account

Item	Equation		1966	1967	1968a*	1968b†	Item	Equation		1966	1967	1968a[1]	1968b[2]
1	5	National Income	7,349·6	7.587·3	7,880·0	7,878·2	13	7	Consumers' current expenditure	6,147·9	6,319·3	6,574·8	6,541·4
8	4	Depreciation	158·1	163·9	170·1	171·9	14	G	Govrnment consumption	988·5	1,057·9	1,114·3	1.164·3
9	G	Indirect taxes	887·3	933·9	957·1	1,052·1	16	10	Gross capital formation	1,114·3	1,371·6	1,176·4	1,254·8
15	G	*Less :* Subsidies	-490·8	-490·3	-504·7	-504·7	17	G	Exports	1,848·9	1,896·2	1,993·2	1,993·2
							10	G	*Less :* Imports	-2,153·4	-2,390·2	-2,271·2	-2,271·2
							11	G	*Less :* Net factor income payments	-42·0	-60·0	-85·0	-85·0
12	2	G. N. P.	7,904·2	8,194·8	8,502·5	8,597·5	12	11	G. N. E.	7,904·2	8,194·8	8,502·5	8,597·5

II—National Income Account

Item	Equation		1966	1967	1968a*	1968b†	Item	Equation		1966	1967	1968a[1]	1968b[2]
1	13	Wages and Salaries	3,692.2	3,808.8	3,955.8	3,954·9	7	5	National Income	7,349·6	7,587·3	7,880·0	7,878·2
2	14	Income from property and entrepreneurship of households	2,760·5	2,793·5	2,942·9	2,903·9							
3	9	Savings of corporations	283·2	296·9	309·3	307·4							
4	G	Direct taxes on corporations	443·8	414·0	412·5	422·5							
5	G	Government income from property	293·0	410·4	418·9	448·9							
6	G	*Less :* Interest on Public Debt	-123.1	-136·3	-159·4	-159·4							
7	15	National Income	7,349·6	7,587·3	7,880·0	7,878·2	7	15	National Income	7,349·6	7,587·3	7,880·0	7,878·2

III — Government Appropriation Account

Item	Equation		1966	1967	1968a*	1968b†	Item	Equation		1966	1967	1968a[1]	1968b[2]
14	G	Government consumption	988·5	1,057·9	1,114·3	1,164·3	5	G	Government income from property	293.0	410.4	418.9	448.9
15	G	Subsidies	490·8	490·3	504·7	504·7	6	G	*Less :* Interest on Public Debt—				
18	G	Current transfers to households	193·7	198·8	200·5	210·5			Local	-104·1	-115·3	-132·6	-132·6
21	G	Savings of Government	20·6	46·7	-26·8	53·2			Foreign	-19·0	-21·0	-26·8	-26·8
							23	G	Direct taxes on households	105·7	102·7	100·1	105·1
							4	G	Direct taxes on corporations	443·8	414·0	412·5	422·5
							24	G	Current transfers from households	81·9	64·0	58·5	58·5
							9	G	Indirect taxes	887·3	933·9	957·1	1,052·1
							19	G	Net current transfers from abroad	5·0	5·0	5·0	5·0
22		Current expenditure and savings of Government	1,693·6	1,793·7	1,792·7	1,932·7	22		Current income of Government	1,693·6	1,793·7	1,792·7	1,932·7

IV—Household Appropriation Account

Item	Equation		1966	1967	1968a*	1968b†	Item	Equation		1966	1967	1968a[1]	1968b[2]
13	7	Consumers' current expenditure	6,147·9	6,319·3	6,574·8	6,541·4	1	13	Wages and salaries	3,692·2	3,808·8	3,955·8	3,954·9
23	G	Direct taxes on households	105·7	102·7	100·1	105·1	2	14	Household income from property and entrepreneurship	2,760·5	2,793·5	2,942·9	2,903·9
26	G	Net current transfers abroad	26·0	25·0	64·0	64·0	18	G	Current transfers from Government	193·7	198·8	200·5	210·5
24	G	Current transfers to Government	81·9	64·0	58·5	58·5							
27	8	Savings of households	284·9	290·1	301·8	300·3							
28	—	Expenditure and savings of households	6,646·4	6,801·1	7,099·2	7,069·3		—	Income of household	6,646.4	6,801·1	7,099·2	7,069·3

V—Consolidated Capital Account

Item	Equation		1966	1967	1968a*	1968b†	Item	Equation		1966	1967	1968a[1]	1968b[2]
8	4	Depreciation	158·1	163·9	170·1	171·9	8	4	Depreciation	158·1	163·9	170·1	171·9
16a	G	Investments in Social Overheads	55·6	84·7	68·3	68·3	21	G	Savings of Government	20·6	46·7	-26·8	53·2
16b	G	Investments in Economic overheads	53·0	73·8	90·5	90·5	3	9	Savings of corporations	283·2	296·9	309·3	307·4
16c	G	Investments in Transport	127·2	105·3	81·6	81·6	27	8	Savings of households	284·9	290·1	301·8	300·3
16d	G	Investments in Housing	294·6	303·2	311·1	311·1	31	G	Net capital transfers from abroad	367·5	574·0	422·0	422·0
16e	G	Other productive investments	425·8	640·7	454·8	531.4							
30	10	Gross addition to National Wealth	1,114·3	1,371·6	1,176·4	1,254·8	30	10	Gross Savings	1,114·3	1,371·6	1,176·4	1,254·8

VI—Consolidated Account for the Rest of the World

Item	Equation		1966	1967	1968a*	1968b†	Item	Equation		1966	1967	1968a[1]	1968b[2]
17	G	Exports of goods and services	1,848.9	1,896.2	1,993.2	1,993.2	10	G	Imports of goods and services	2,153.4	2,390.2	2,271.2	2,271.2
31	G	Net capital transfers to the nation	367.5	574.0	422.0	422.0	11	G	Net Factor income payments	42.0	60.0	85.0	85.0
19	G	Net transfers to Government	5.0	5.0	5.0	5.0	26	G	Current transfers from household	26.0	25.0	64.0	64.0
	G	Total	2,221.4	2,475.2	2,420.2	2,420.2		G	Total	2,221.4	2,475.2	2,420.2	2,420.2

VII—Private Disposable Income

Item	Equation		1966	1967	1968a*	1968b†	Item	Equation		1966	1967	1968a[1]	1968b[2]
7	5	National Income	7,349.6	7,587.3	7,880.0	7,878.2	13	7	Household consumption	6,147.9	6,319.3	6,574.8	6,541.4
5	G	*Less :* Government income from property	-293.0	-410.4	-418.9	-448.9	27	8	Household savings	284.9	290.1	301.8	300.3
6	G	*Plus :* Interest on public debt	+123.0	+136.3	+159.4	+159.4	3	9	Savings of corporations	283.2	296.9	309.3	307.4
24	G	*Less :* Transfers to Government	-81.9	-64.0	-58.5	-58.5							
18	G	*Plus :* Transfers from Government	+193.7	+198.8	+200.5	+210.5							
26	G	*Less :* Transfers to rest of the world	-26.0	-25.0	-64.0	-64.0							
23, 24	G	*Less :* Direct taxes	-549.5	-516.7	-512.6	-527.6							
	6	Disposable income	6,716.0	6,906.3	7,185.9	7,149.1		6	Disposable income	6,716.0	6,906.3	7,185.9	7,149.1

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[1] Pre-budget expenditures and rates of taxation.

[2] Inclusive of revenue and expenditure measures in the budget presented to Parliament.

G Denotes independent variables.

TABLE H*

PRELIMINARY MANPOWER BUDGET

('000)

	1966	*1967*	*1968*	*1969*		*1966*	*1967*	*1968*	*1969*
(1) Population	11·561	11·838	12·122	12·412	(4) Gainfully employed	3·278	3·339	3·421	3·501
(2) *Less* population outside labour force	7·801	7·988	8·180	8·374	(5) Unemployment	0·482	0·506	0·514	0·522
(3) Labour Force	3·760	3·850	3·942	4·036		3·760	3·850	3·942	4·036
					(6) Increase in gainfully employed		·061	·082	·080

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* Base year data from Appendix A Table XIV.

(1) Assumed to grow at 2·4 per cent annually.

(2) Includes population below 15 years and above 65 years, school population above 15 years and voluntary female unemployment. The projection assumes no change in age structure of population.

(3) Represents the difference between (1) and (2).

(4) The increase in employment is estimated on the basis of the ratio of wages and salaries to GDP in 1966. This ratio ·489 is used to work out the share of wages in the increment in GDP in subsequent years and the addition to employment determined on this basis.

(5) Residual.

(6) Derived from (4).

TABLE I

AN IMPORT PROGRAMME FOR 1968

(*Rs. million*)

Activity	*Magnitude in 1968*	*Foreign content of activity*	*Required Exchange Allocation*
Consumption			
Private	6,541·4[1]	0·185[2]	1,210·2
Government	1,164·3[3]	0·091[4]	105·9
Total	7,705·7		1,316·1
Production			
Exports	+2,061·3[5]	0·065[6]	134·0
Other G. D. Product	6,169·1[7]	0·082[8]	505·9
Total	8,230·4		639·9
Investment			
Social overheads	68·3[9]	0·160[10]	10·9
Economic overheads	90·5[11]	0·461[12]	41·7
Transport	81·6[13]	0·461[14]	37·6
Housing	311·1[15]	0·160[16]	49·8
Productive projects	531·4[17]	0·375[18]	199·3
Replacement	171·9[19]	0·359[20]	61·7
Total	1,254·8		401·0
Required Import Capacity			2,357·0
Import Capacity			
Merchandise exports	+1,817·0		
Services and Invisibles Exports	+ 176·2	1,993·2	
Net factor Income	− 85·0		
Government Transfers	+ 12·8		
Private Transfers	− 64·0	−136·2	
IMF Transactions	− 71·0		
Short Term Credits	− 71·0		
New Aid	+ 382·0		
Project Loans (already Committed)	+ 60·0		
Negotiated or Under negotiations	+ 90·0		
Repayment of suppliers' credit	− 28·0		
Other Capital Transactions	+ 10·0	+372·0	
Total			2,229·0
Additional aid and new suppliers' credit requirements			128·0

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[1] National Accounts Table G IV, Item 13.

[2] Coefficient derived from actual imports of consumers' goods and services in 1966 amounting to Rs. 1,210·4 million (Central Bank Report 1966, page 175, Table II (i) 9, Item I plus Table 27, Items # 1, 3, 7 and 8 (i). Foreign content of government consumption, excluding services is estimated by the Central Bank at 7 per cent of its total

consumption. In 1966 the latter was Rs. 988·5 million (National Accounts Table G III, Item 14). Thus Government imports of consumer goods would be Rs. 69·2 million to which is added non-merchandise imports of Rs. 21·3 million (Central Bank, Table 27, Item 7), making the total Rs. 90·5 million. The overall import co-efficient of Government consumption is therefore (90·5 ÷ 988·5 =) 0·091. Private consumption of imported goods and services becomes the residual (1,216·1—90·5 =) Rs. 1,126·1 million. The import coefficient for private consumption is therefore (1,126·1 ÷ 6,078·5 =) 0·185.

[3] National Accounts, Table G (iii), Item 14.

[4] *See* note 2 above.

[5] National Accounts, Table G (vi), Item 17.

[6] Coefficient derived from total exports in 1966, Rs. 1,777 million, (Ibid, Item 17), and imports of goods and services used in production for exports estimated at Rs. 116·6 million of which Rs. 113 million represents import of goods (production account of agriculture, Item 17) and Rs. 3·6 million represent services (Central Bank Report 1966, Table 27, Items 3 and 4·2). The import coefficient for exports is therefore (116·6 ÷ 1,777 =) 0.065.

[7] Total G.D.P. for 1966 amounted to Rs. 7,476·8 million of which exports were Rs. 1,777 million. The residual Rs. 5,699·8 million represents G.D.P. generated from production for domestic use.

[8] Imports of raw materials amounted in 1966, to Rs. 470 million (Central Bank Table II (i) 9, Item 2), of which Rs. 113 used in production for exports, *see* note 6 above. The residual (470 – 113 =) Rs. 357 million, plus imported services amounting to Rs. 77·7 million (Central Bank Report Table 27, Items 4·3, 8·2) as well as Rs. 36 million (Item 5, Table II (i) 9) makes total imports for local production Rs. 470·7 million. The import coefficient would therefore be (470·7 ÷ 5,699·8 = 0·082).

[9] National accounts, Table G V, Item 16*a*.

[10] Residual of total imports related to investments in social overheads.

[11] National accounts Table G V, Item 16·6.

[12] Same coefficient as for transport, *see* note 14 below.

[13] National Accounts Table V, Item 16*c*.

[14] Imports of transport equipment are obtained from Central Bank Report Table II (i) 9, Item 3 ii minus spare parts and tyres (total of customs codes : 629, 1/09/,10, 19, 29, Code 676·2 and codes 729·12, 01).

[15] National Accounts, Table G V, Item 16*d*

[16] Imports in housing are obtained as 75 per cent of Item 3 i in Central Bank, Table II (i) 9, op. cit.

[17] National Accounts Table G V, Item 16*e*.

[18] Co-efficient based on IBRD estimate, " *Recent Economic Trends* ", p. 28.

[19] National Accounts, Table V, Item 8.

[20] Imports represent spare parts, tyres etc. determined in note 14 above (Rs. 51·6 million), plus 10 per cent of Item 3 iii in Central Bank, Table II (i) 9, op. cit.

[21] National Accounts Table G V, Item 10.

TABLE J

GOVERNMENT APPROPRIATION ACCOUNT 1966-67 AND 1967–68

Rs. million

	1967	1968[a]	1968[b]
1. Central Government Current Purchase of goods and services			
1·1 Civil Administration	889·2	940·0	986·0
1·2 Defence	68·7	74·3	76·8
1·3 Intermediate Consumption	265·8	273·5	273·5
2. Interest on national debt	136·3	159·4	159·4
3. Subsidies	490·3	504·7	504·7
4. Current transfers to households	198·8	200·5	210·5
5. Local Government consumption	100·0	100·0	101·5
6. Surplus or deficit	46·7	– 26·8	53·2
	2,195·8	2,225·6	2,365·6

	1967	1968[a]	1968[b]
7. Income from Property and Entrepreneurship			
7·1 Profit from sale of sugar and flour	279·5	242·2	242·2
7·2 Income from property	31·9	32·0	32·0
7·3 Net surplus of financial enterprises	16·4	17·5	17·5
7·4 Interest and dividends received	37·9	71·5	101·5
7·5 Gross receipts of Government enterprises	310·5	329·2	392·2
8. Indirect taxes	933·9	957·1	1052·1
9. Direct taxes on corporations	414·0	412·5	422·5
10. Direct taxes on households	102·7	100·1	105·1
11. Current transfers form households	64·0	58·5	58·5
12. Current transfers from abroad	5·0	5·0	5·0
	2,195·8	2,225·6	2,365·6

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[a] Pre-budget expenditures and rates of taxation.

[b] Inclusive of revenue and expenditure measures in the Budget presented to Parliament.

APPENDIX A

NATIONAL ACCOUNTING AND ECONOMIC FORECASTS

I—The Compilation of National Accounts in Ceylon

THE method of compiling the National Accounts of Ceylon in current use is based upon a system originally developed by the late Mr. K. Williams in 1952[1] then Director of Census and Statistics. While subsequent attempts have been made to improve estimation procedures and effect certain conceptual refinements to the original calculation, the basic approach then adopted still survives. This section seeks both to elaborate the logical basis of the Williams' system ; and in the light of this to suggest the need for more radical departures from that system in the context of the economic developments that have taken place since 1952.

The underlying logic of the Williams system of accounts may be presented as follows :— Consider the familiar national accounting identity which states that the supply of resources must equal the demand for them—

$Y + M = C + I + X^{2}$ ....(1)

Imports (M) may be represented as follows :

$M = aC + bI + cX$..................(2)

where each of the coefficients a, b and c represent both direct and indirect imported inputs per unit of the respective components of final demand C, I and X. In other words aC represents the *total* of all imported inputs that go directly or indirectly into Consumption, bI those that go into Investment and cX those that go into Exports. Each of these totals can only be accurately determined by a straight forward manipulation of an Input-Output table the details of which are not relevant for present purposes[3]. Once these totals are derived, however the coefficients a, b and c are obtained by simply dividing each total of imported inputs by the final demand component which absorbs that input.

The derivation of G.D.P. is now simply a matter of subtracting expression (2) from expression (1) so that

$Y = (C - aC) + (I - bI) + (X - cX)$............(3)

When G.D.P. is expressed in this form the mode of presentation of Ceylon's National Accounts becomes easily recognizable. The first two bracketed expressions in (3) together correspond to what the Central Bank and the Department of Census and Staistics call Production for Domestic Use (Net Output)—the second in fact corresponds to the Net Output of Capital Development—and the third bracketed expression to Production for Export (Net Output)[1]. In each case an expression on the expenditure side of the national income account is reduced by its import content to arrive at what is called " Net Output "[2].

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[1] K. WILLIAMS—*The National Income of Ceylon*, 1952

[2] Y represents Gross Domestic Product at Market prices, M and X imports and exports respectively of goods and services exclusive of investment income and C and I final expenditure on Consumption and Investment.

[3] *See* United Nations: *Problems of Input-Output Tables and Analysis Sales No. 66 XVII. 8, Chapter IV p.* 78-81. *See also* M. BRUNO—*Interdependence, Resource Use and Structural Change in Israel* (Jerusalem 1962)—p. 24-27. At the risk of excessive compression, the technique may be briefly summarised. The inverse matrix of input-output coefficients is used to work out the sectoral outputs required for each of the components of final demand C, I and X. Total i.e. direct and indirect import coefficients per unit of sectoral output, derived by combining the direct import coefficients with the inverse matrix are then used to estimate the total direct and indirect import requirements of each set of sectoral outputs already estimated. Each set of import requirements is then divided by the corresponding final demand component to get at coefficients of the kind a, b and c in equation (2).

The extent to which Williams' original estimation procedures in fact conformed to the requirements of the conceptual framework implicit in them and the nature of subsequent modifications to these procedures to achieve a better fit between theory and practice must form the subject of a separate exercise. But once the underlying theory is recognised several things follow immediately. It is clear first that under the conditions of an export economy where reliable statistics relate largely to the export, and import sectors and where final expenditures on Consumption and Investment are not too difficult to estimate, the method provides a tolerable approximation to the absolute magnitude of G.D.P. A rough classification of imports would, in the absence of an input-output table, then serve to indicate which component of final demand absorbs which imports, so that the arithmetic necessary to derive G.D.P. can be completed in the manner indicated in equation (3) once C, I and X are known.

But what also follows is that this arithmetic has little independent virtue other than as steps to determine *total* G.D.P. In particular it does not result in an approximation to value added by each production sector. Net output in the more usual sense of the term is equivalent to value added and results from the deduction of *all* inputs both domestic and imported from the gross value of the output of each production sector defined as quantity produced times price. In terms of the framework of an input-output table where imports are depicted along a row as inputs into the production sectors, this method amounts to looking at the totals of each column representing the production sectors of the table and deducting *all* inputs into that column whether domestically produced or imported. The resulting values added for each column (together with any value added element in final demand-usually the wages and salaries component of Government consumption) sum to the Gross Domestic Product of the economy.

Because in Ceylon's national accounting practice *only* imported inputs are deducted from some gross magnitude whose significance has not been fully appreciated partly because the result has also in each case been termed 'net output', it has usually been assumed that the figure of G.D.P. derived thereby contains an element of grossness. If the logic underlying the accounting system as set out above is accepted, then it follows that this criticism is mistaken and that if the deductions are made from magnitudes taken from the expenditure side of the national income account—from, that is, the final demand quadrant of an input-output table—then the only deductions that need to be made to get at G.D.P. are of *imported* inputs taken to mean both direct and indirect imports.

What also follows is that there is no way of moving from the kind of deductions that are made in Ceylon's national accounting practice to a genuine measure of value added by production sector i.e. by industrial origin except on some more or less arbitrary assumptions. For planning purposes however the accurate determination of value added in this sense is vital—i.e. in a detailed sectoral breakdown—and it is no longer sufficient to be content with a system of arithmetic which only yields a fairly accurate measure of G.D.P. as a total. It is, therefore, necessary to build up estimates of national income from the production side by deducting all intermediate inputs from the gross output of each production sector so that all the elements which go into each production *column* of an input-output table are accounted for.

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[1] *See e.g.* Central Bank *Annual Report*, 1966 Table II (A)2, p. 18.

[2] The exact procedure followed can be most easily understood by splitting up the total of direct and indirect imports absorbed by each component of final demand into its direct and indirect segments. Thus a C— the total imports generated by consumption expenditure comprise (i) imports going directly into consumption, i.e. of consumer goods such as cloth and (ii) imports indirectly going into consumption, i.e. of items required for the domestic production of consumer goods such as yarn.

Since item (i) can be made to cancel out on both sides of equation (2) the requirements of the expression (C—aC) in equation (3) are satisfied if item (ii) is deducted not from C, but from (C—item (i)), i.e. from domestic production for consumption. It is in other words sufficient to deduct from the value of production for domestic consumption, the value of indirect imports required for that production which is precisely what the current practice is.

Finally, it follows that as the economy becomes more complex with time and as the interdependence between its various sectors grows, a rough apportionment of imported inputs into each of the components of final demand, C, I and E will increase the arbitrariness of the procedures necessary to move from 'net output' in the sense currently employed in Ceylon to a measure of value added by industrial origin. The accurate determination of direct and indirect imported inputs into each component of final demand is as already explained only possible by manipulating an input-output table in a particular way. When most cells in an input-output matrix are empty as was doubtless the case in the early 1950s in Ceylon, the indirect imports resulting from any given component of final demand may be expected to be slight and errors in a rough estimation procedure may be ignored. But as the cells begin to contain positive entries with the development of production primarily for intermediate as opposed to final use, this can no longer be taken for granted, so that even the present arithmetical procedures are bound to result in an increasingly inaccurate estimate of G.D.P. by industrial origin in the course of time.

The provisional national accounts for 1966 used in the text as a basis for the forecasts have been the result of a first attempt to compile national income from the production side with a view to remedying the deficiencies implicit in the Williams system. This has necessitated the combination of data from a number of sources in order to obtain totals of intermediate inputs. In the few cases where information on cost breakdowns in Ceylon has been lacking, recourse has been had to comparable data from international sources. The highly provisional nature of these estimates cannot be too much emphasized and they can be expected to undergo still further revision with the completion of the work on an input-output table presently proceeding in the Ministry of Planning, and as a result of work currently in progress in the Central Bank and the Department of Census and Statistics.

The details underlying the compilation of national accounts for 1966 are presented in Tables I to XIII of this Appendix and have been exhaustively footnoted so that the accounts can be checked against the original sources. Tables I to IX contain the accounting framework ; Tables X to XII contain the Production Accounts on which these earlier tables are based. Table XIII—the Consolidated Production Accounts gives value added by each production sector which provides the essential benchmark data for projections of the future economic structure. Table XIV provides a preliminary manpower budget indicating how the available labour force is distributed among the various sectors.

II—The Forecasting Model

The economic model underlying the forecasts presented in the text can be formalised as a set of simultaneous equations. Provided the system contains as many unknowns as equations it is a determinate one.

The variables and equations are set out below along with the sequence of steps involved in the solution.

Variables used in the Model

(a) Data and policy variables

(1) GDP_0 — Gross domestic product in base year
(2) GNP_0 — Gross national product in base year
(3) I_0 — Gross domestic capital formation in base year
(4) T_i — Indirect taxes
(5) B — Government subsidies
(6) C_g — Government consumption
(7) T_{dc} — Direct taxes on corporations

(8) T_{dh} = Direct taxes on household
(9) P_g = Government income from property and enterpreneurship
(10) R_g = Interest on the public debt
(11) F_{gh} = Government transfers to household
(12) F_{gw} = Government transfers to rest of the world
(13) F_{hg} = Household transfers to the government
(14) F_{hw} = Household transfers to rest of the world
(15) F_{wn} = Net capital transfers to the nation
(16) M = Imports of goods and services
(17) M_f = Net factor income payments
(18) X = Exports of goods and services
(19) K_t = Capital output ratio applicable to base year investments
(20) e = Utilisation of excess capacity

(b) **Endogenous variables** (relate to projected year t+1)

(1) GDP = Gross domestic product in projected year
(2) GNP = Gross national product in projected year
(3) ΔGNP = The increase in GNP in projected year compared to base year
(4) GNE = Gross national expenditure
(5) k = Capital output ratio applicable in projected year
(6) P = Price effect on GNP due to Government activities
(7) NY = National income
(8) DY = Disposable income
(9) D = Depreciation funds
(10) C_h = Household consumption
(11) I = Gross capital formation
(12) W = Wages and salaries component of NY
(13) P_h = Household income from property and enterpreneurship
(14) S_h = Household savings
(15) S_p = Corporate savings

Equations of the Model

(1) $\Delta GNP = \frac{I_t}{k_t} + P + C - \Delta M_f$
(2) $GNP = \Delta GNP_t + GNP$
(3) $P = (T_i - B)_{t+1} - (T_i - B)_t$
(4) $D = 0.020\,GDP$
(5) $NY = GNP + B - T_i - D$
(6) $DY = NY + (R_g - P_g) + (F_{gh} - F_{hg}) - T_d - F_{hw}$
(7) $C_h = 0.916\,DY$
(8) $S_h = 0.043\,DY$
(9) $S_p = DY - C_h - S_h$
(10) $I = S_h + S_p + S_g + D + F_{wn}$
(11) $GNE = C_h + C_g + I + X - M - M_f$
(12) $GNE = GNP$
(13) $W = 0.507\,NY$
(14) $P_h = C_h + T_{dh} + F_{hw} + (F_{hg} - F_{gh}) + S_h - W$
(15) $NY = W + P_h + S_p + T_{dp} + (P_g - R_g)$

National Accounts—Ceylon 1967

The solution of the above equations for 1967 given in the text (Table G) serves to illustrate the steps involved in the solution.

Step 1—GNP

(*a*) Of all the economic activities portrayed in the national accounts of Ceylon in 1966, none has a greater impact on the future development of the economy and its rate of growth than the gross addition to national wealth achieved during 1966. The latter amounted to Rs. 1,114·3 million. These investments were channelled towards various sectors in the following manner generating new output estimated at Rs. 186·9 million :—

Rs. 156·7 million to replace depreciated assets leading to no additional output.

Rs. 55·6 million in social overheads investments generating an output of Rs. 5·6 million.

Rs. 53·0 million economic overheads investments generating an output of Rs. 6·6 million.

Rs. 294·6 million in housing generating an output of Rs. 29·5 million.

Rs. 127·2 million in transport generating an output of Rs. 23·1 million.

Rs. 427·2 million in other investments generating an output of Rs. 122·1 million.

(*b*) Utilisation of excess capacity, the food drive campaign as well as an expected record harvest of rice are expected to increase gross domestic product by Rs. 74·6 million.

(*c*) GNP at market prices is also raised by a price factor determined by the difference between indirect taxes and subsidies, amounting to Rs. 47·1 million in 1967.

(*d*) The effect of larger net factor income payment is $-60-(-42)=-18$ million

(*e*) $\mathrm{GNP}=186{\cdot}9+74{\cdot}6+47{\cdot}1-18{\cdot}0=290{\cdot}6$

(*f*) $\mathrm{GNP}_{1967}=7904{\cdot}2+290{\cdot}6=8{,}194{\cdot}8$ million

Step 2—Depreciation

$$\begin{aligned} D &= 0{\cdot}020\ \mathrm{GNP} \\ &= 0{\cdot}020\ (8{,}194{\cdot}8) = 163{\cdot}9 \text{ million} \end{aligned}$$

Step 3—National income

$$\begin{aligned} NY &= \mathrm{GNP} + B - T_i - D \\ &= 8{,}194{\cdot}8 + 490{\cdot}3 - 933{\cdot}9 - 163{\cdot}9 \\ &= 7{,}587{\cdot}3 \text{ million.} \end{aligned}$$

Step 4—Disposable income

$$\begin{aligned} DY &= NY + R_g + F_{gh} - P_g - F_{hg} - F_{hw} - T_d \\ &= 7{,}587{\cdot}3 + 136{\cdot}3 + 198{\cdot}8 - 410{\cdot}4 - 64{\cdot}0 - 25{\cdot}0 - 516{\cdot}7 \\ &= 6{,}906{\cdot}3 \text{ million} \end{aligned}$$

Step 5—Consumption and Savings

$$\begin{aligned} C_h &= 0{\cdot}915\,(DY) = 0{\cdot}915\,(6{,}906{\cdot}3) \\ &= R\ 6{,}319{\cdot}3 \text{ million} \\ S_h &= 0{\cdot}042\,(DY) = 0{\cdot}042\,(6{,}906{\cdot}3) \\ &= R\ 290{\cdot}1 \text{ million} \\ S_p &= DY - C_h - S_h \\ &= 6{,}906{\cdot}3 - 6{,}319{\cdot}3 - 290{\cdot}1 \\ &= 296{\cdot}9 \end{aligned}$$

Step 6—Capital formation

$$\begin{aligned} I &= S_g + S_h + S_p + D + F_{wt} \\ &= 46{\cdot}7 + 290{\cdot}1 + 296{\cdot}9 + 163{\cdot}9 = 1{,}371{\cdot}6 \text{ million} \end{aligned}$$

Step 7—Consistency check

$$\begin{aligned} GNP &= GNE \\ &= C_h + C_g + I + E - M - M_f \\ 8{,}194{\cdot}8 &= 6{,}319{\cdot}3 + 1057{\cdot}9 + 1{,}371{\cdot}6 + 1{,}896{\cdot}2 - 60{\cdot}0 - 2{,}390{\cdot}2 \\ &= 8{,}194{\cdot}8 \end{aligned}$$

Step 8—Expenditure and Savings of Households

$$\begin{aligned} E_h &= C_h + T_{dh} + F_{bw} + F_{lg} + S_h \\ &= 6{,}319{\cdot}3 + 102{\cdot}7 + 25{\cdot}0 + 64{\cdot}0 + 290{\cdot}1 \\ &= 6{,}801{\cdot}1 \text{ million} \end{aligned}$$

Step 9—Wages and salaries

$$\begin{aligned} W &= 0{\cdot}502\ NY = 0{\cdot}502\ (7{,}587{\cdot}3) \\ &= 3{,}808{\cdot}8 \text{ million} \end{aligned}$$

Step 10—Income from property and entrepreneurship

$$\begin{aligned} P_h &= E_h - W - F_{gh} \\ &= 6{,}801{\cdot}1 - 3{,}808{\cdot}8 - 198{\cdot}8 \\ &= 2{,}793{\cdot}5 \text{ million} \end{aligned}$$

Step 11—Consistency check

$$\begin{aligned} NY &= W + P_h + S_p + T_p + P_g - R_g \\ 7{,}587{\cdot}3 &= 3{,}808{\cdot}8 + 2{,}793{\cdot}5 + 296{\cdot}9 + 414{\cdot}0 + 410{\cdot}4 - 136{\cdot}3 \\ &= 7{,}587{\cdot}3 \end{aligned}$$

NATIONAL ACCOUNTS OF CEYLON—1966

I—National Income and Expenditure Account

(*Rs. Million*)

7.	National Income	7,349.6	13.	Consumers' expenditure on goods and services	6,147.9
8.	Depreciation	158.1	14.	Government current expenditure on goods and services	988.5
9.	Indirect taxes	887.3	16.	Gross domestic capial formation	1,114.3
15.	*Less* Subsidies	490.8	17.	Exports of goods and services	1,848.9
			10.	*Less* Imports of goods and services	-2,153.4
			11.	*Less* Net factor income payments to the rest of the world	-42.0
12.	Gross National Product at market prices	7,904.2	12.	Gross National Expenditure at market prices	7,904.2

II—National Income Account

1.	Wages and salaries	3,692.2	7.	National Income	7,349.6
2.	Income from property and entrepreneurship of households	2,760.5			
3.	Savings of Corporations	283.2			
4.	Direct taxes on Corporations	443.8			
5.	Government income from property and entrepreneurship	293.0			
6.	*Less* Interest on the public debt	-123.0			
7.	National Income	7,349.6	7.	National Income	7,349.6

III—Government Appropriation Account

14.	Government current expenditure on goods and services	988.5	5.	Government income from property and entrepreneurship	293.0
15.	Subsidies	490.8		*Less* Interest on the public debt	-123.1
18.	Current transfers to households	193.7	23.	Direct taxes on households	105.7
21.	Savings of Government	20.6	4.	Direct taxes on Corporations	443.8
			24.	Current transfers from households	81.9
			9.	Indirect taxes	887.3
			19.	Net current transfers from abroad	5.0
22.	Current expenditure and savings of Government	1,693.6	22.	Current income of Government	1,693.6

IV—Household Appropriation Account

13.	Consumers' expenditure on goods and services	6,147.9	1.	Wages and salaries	3,692.2
23.	Direct taxes on households	105.7	2.	Income from property and entrepreneurship of households	2,760.5
26.	Net current transfers to the rest of the world	26.0	18.	Current transfers from Government	193.7
24.	Current transfers to Government	81.9			
27.	Savings of households	284.9			
28.	Expenditure and savings of households	6,646.4	28.	Income of households	6,646.4

V—Consolidated Capital Transaction Account

8.	Depreciation	158.1	8.	Depreciation and other provisions	158.1
16*a*.	Investments in Social overheads	55.6	21.	Savings of Government	20.6
	,, ,, Economic overheads	53.0	3.	Savings of Corporations	283.2
	,, ,, Transport	127.2	27.	Savings of households	284.9
	,, ,, Housing	294.6	31.	Net capital transfers from the rest of the world	367.5
	Other directly Productive Investments	425.2			
16.	Gross addition to National Wealth	1,114.3			1,114.3

VI—Consolidated Account for the Rest of the World

17.	Exports of goods and services	1,848.9	10.	Imports of goods and services	2,153.4
31.	Net capital transfers to the nation	367.5	11.	Net factor income payments	42.0
19.	Net current transfers to Government	5.0	26.	Net current transfers from households	26.0
		2,221.4			2,221.4

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(1) Obtained from 'Consolidated Production Account of Ceylon' item 33. (2) Obtained from 'Consolidated Production Account of Ceylon' item 35 (Rs. 3,657·4 million), after excluding depreciation and other operating provisions estimated at Rs. 158·1 million and share of Government in the form of income from property and entrepreneurship obtained from 'Current Transactions Account of Government' item 7.1, 7.2, 7.3, 7.4 and *net* receipts of trading enterprises (item 7.5 minus item 1.3 from the same table), totalling Rs. 293·0 million, as well as direct taxes on Corporation (Rs. 443·8 million). (3) Residual. (4) 'Current Account of Government' item 10. (5) 'Current Account of Government' item 7 (with item 7.5 netted as in note 2 above). (6) 'Current Account of Government' item 2. (8) Estimated at 2 per cent of gross national product. (9) 'Current Account of Government' item 8. (10) Central Bank, Annual Report 1966, Table 27. Imports and exports are derived in each case as the total of Goods and Services (item 1 to 8) minus items 6 (Investment Income) and certain identifiable current transfer elements in item 7 (Government expenditure n.i.e). These current transfers are taken to be Government Pensions, Gratuities, Taxes, Contributions to international bodies and other Government Expenditure and receipts the total of which gives a total credit of Rs. 12·8 million, a total debit of Rs. 8 million, and a net credit of Rs. 5·0 million; *see* item 19 in tables III and VI. (11) IBRD, op. cit., item 2 *c* including the foreign component of interest on public debt treated in these accounts as factor income payments to the rest of the world. (13) Central Bank Report, Table II (A) 4. (14) Current Account of Government items 1.1, 1.2 as well as item 5 (Local Government) purchases of goods and services as the Account relates to all Government. Local Government consumption is estimated by the Central Bank at Rs. 100 million, C.B. Report 1966, Table II (A) 4 p. 21, item II. (15) Current Account of Government, item 3. (16) Central Bank Report 1966, Table II (A) 4, total item III, breakdown of investments is obtained as follows: social and economic overheads and transport from Budget estimates, housing as 75 per cent of construction (Table II (A) 7, C.B. Report 1966, item (i) plus Government housing schemes (Budget estimates)); other productive investment is residual. (17) *See* note 10 above. (18) Current Account of Government Item 4. (19) *See* note 10 above; corresponds to item 12 in Current Account of Government. (21) Ibid, tiem 6. (22) Corresponds to total of Government Current Account excluding item 1.3 and item 2 from both sides. It should be noted that this total is contaminated with a gross element included on both sides, namely item 1.3 representing intermediate consumption of Government enterprises on the debit side and item 7.5 representing *gross* receipts of trading enterprises on the credit side. If netted the total should read (2,075·9 – 259·2 =) Rs. 1,816·7 million. (23) Current Account of Government, item 10. (24) Ibid, item 11. (26) IBRD op. cit., item 2 f. (31) Obtained from the net total of item 4 and item 5 of Balance of Payments, Table XV, IBRD, op. cit. The total should also equal the deficit on current account. It should be noted that all transfers from abroad are treated as of a capital nature, except those referred to in item 19; *see* note 10 above and note 12 to table VII below.

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VII—Current Transactions Account of Government

(*Rs. Million*)

DEBIT			*CREDIT*
1. Current Purchases of Goods and Services		7. Income from property and entrepreneurship	
1.1. Civil administration	824·4	7.1. Profit on sale of sugar, flour, etc.	200·8
1.2. Defence	64·1	7.2. Income from property	52·1
1.3. Intermediate consumption of Government Enterprises	259·2	7.3. Net surplus of financial enterprises	3·8
		7.4. Interest and dividends received	13·1
2. Interest on the public debt	123·1	7.5. Gross receipts of trading enterprises	282·4
3. Subsidies	490·8	8. Indirect taxes	887·3
4. Current transfers to households	193·7	9. Direct taxes on Corporations	443·8
5. Current purchases of goods and services by local government authorities	100·0	10. Direct taxes on households, etc.	105·7
		11. Current transfers from households	81·9
6. Surplus on current account	20·6	12. Net current transfers from abroad	5·0
	2,075·9		2,075·9

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(1) Including purchases of intermediate consumption goods for Government enterprises. (1.1) Item is derived from item 20 of Table 21 on " Receipts and Payments of the Government of Ceylon " in Central Bank of Ceylon, Annual Report, 1966, henceforth referred to as Central Bank, Table 21. Sub-items 20 (*a*) (ii) related to defence, and 20 (*d*) referring to purchases of goods and services by Government enterprises, are excluded. (1.2) Item corresponds with item 20 (*a*) (ii) plus item 24 (*a*) (ii), Central Bank, Table 21. (1.3) Item corresponds with item 20 (*d*), Central Bank, Table 21. On the credit side of the account, gross receipts of Government enterprises appear under item 7.5. The difference would give net income of Government enterprises. (2) Corresponds to item 21 (*a*) (ii) in Central Bank, Table 21. (3) Corresponds to the gross value of item 21 (*a*) (i), Central Bank, Table 21. The net figure does not reflect the true value of subsidies as it is netted against profits from the sale of sugar and flour appearing in this table under item 7.1 on the credit side. The value of gross subsidy in this table corresponds also with Central Bank Table II (E) 5 on page 102 items 9 and 10. (4) Corresponds to Central Bank, Table 21, item 21 (*a*) excluding 21 (*a*) (i) (food subsidies) and 21 (*a*) (ii) (interest on public debt). (5) Central Bank Report 1966, Table II (A) 4, p. 21 item II (ii). (6) Residual. (7.1) *See* note 3 above. (7.2) Includes Central Bank, Table 21, item 2 (Rs. 6·6 million), net receipts of the Department of Broadcasting (Rs. 3·1 million), surplus of Commercial Undertakings (Rs. 7·5 million), surplus from National Lotteries (Rs. 9·5 million) and surplus of Local Government Undertakings (Rs. 25·4 million). Also *see* note 8. (7·3) Corresponds to Central Bank, Table 21, item 3. (7.4) Corresponds to Central Bank, Table 21, item 4. (7.5) Corresponds to Central Bank, Table 21, item 10. *See* note 1.3 above. (8) Central Bank, Table 21, item 9, minus certain sub-items not deemed to be Indirect Taxes plus Local Government rates. The deductions are as follows:—Export duties (Rs. 220·6 million treated as a direct taxes), Tea Tax (Rs. 36·8 million treated as a direct tax), Business and Professions Tax (Rs. 0·5 million treated as a direct tax), Radio Licence Revenue (Rs. 1·8 million treated as income from property and entrepreneurship), Profits of Commercial Undertakings (Rs. 7·5 million treated as income from property and entrepreneurship), and Profits of National Lotteries Board (Rs. 9·5 million treated as income from property and entrepreneurship). (9) Information is not available regarding direct taxes on Corporations separately from households. It is assumed that proceeds of direct taxes on Corporations amount to about two thirds of total proceeds. Thus the value of this item equals 2/3 of items 6 and 7 in Central Bank, Table 21. (Items 6 and 7 totalling Rs. 278·8 million of which Income Tax (Head III sub-item I) amounts to Rs. 275·4 million and Profits Tax and Surcharge amount Rs. 3·4 million) plus all export duties in Central Bank, Table 21 item 9 (*d*). Also *see* note 8. (10) *See* note 9 above. Item corresponds to 1/3 of items 6 and 7 plus item 5 of Central Bank, Table 21. (11) Corresponds to Central Bank, Table 21, items 1 and 8, plus Rs. 69·4 million as transfers from household to local authorities. (12) Representing transfer elements on item 7 (Government expenditure n.i.e), Central Bank Annual Report 1966, Table 28. The credit transfer elements are Government pensions and gratuities (Rs. 8·2 million), taxes (Rs. 2·7 million) contritutions to international bodies (Rs. 1·1 million) and other transfers (Rs. 0·8 million). The debit transfer elements are Rs. 1·5 million, Rs. 0·6 million, Rs. 0·5 million and Rs. 5·2 million respectively.

VIII—Disposable Income Account

(*Rs. Million*)

7. National income	7,349·6	7. Household consumption	6,147·9
5. *Less* : Government income from property and entrepreneurship	– 293·0	8. Household savings	284·9
6. *Plus* : Interest on public debt	+ 123·0	9. Savings of corporations	283·2
24. *Less* : Transfers to Government from households	– 81.9		
18. *Plus* : Transfers to households from Government	+ 193·7		
26. *Less* : Transfers to rest of the world	– 26·0		
23. 24. *Less* : Direct taxes	– 549·5		
Disposable income	6,716·0	Disposable income	6,716·0

IX—Reconciliation of National Income and Production Accounts

From National Accounts Tables I and II		*From Production Accounts Tables XI and XII*	
1. Wages and salaries	3,692·2	33 XII wages and salaries	3,692·2
2. Household income from property and entrepreneurship (Net)	2,760·5	35 XII Other elements of value added	3,657·4
3. Savings of corporations	283·2		
8. Depreciation provisions	158·1		
4. Direct taxes on corporations	443·8		
5. Government income from property	293·0		
	7,630·8		
6. *Less* : Interest on public debt	– 123·1		
8. *Less* : Depreciation provisions	– 158·1		
	7,349·6		7,349·6

X—Production Account of Agricultural Sector

(*Rs. Million*)

	Output	*1965*	*1966*
1.	Value of Production of		
2.	Tea exported	1,145·9	1,048·7
3.	consumed locally	65·9	60·4
4.	Rubber exported	293·4	322·8
5.	Coconut Products exported	342·1	242·2
5.	consumed locally	212·2	230·2
7.	Other exportable products (including re-exports)	68·4	71·5
8.	Rice	381·7	501·0
9.	Other food crops	423·4	438·6
10.	Tobacco	23·1	23·7
11.	Betel & arecanuts	52·7	50·6
12.	Firewood	73·2	74·3
13.	Livestock	186·7	193·4
14.	Fish	152·6	167·9
15.	Other agricultural & forestry Products	60·9	67·3
		3,482·2	3,492·6

	Outlay	*1965*	*1966*
16.	*Intermediate Consumption*		
17.	Imported : for exportable goods (tea, rubber, coconut)	103·2	113·0
18.	Domestically used coconut	7·0	7·3
19.	Domestically used Tea	4·4	4·6
20.	Rice	12·3	14·7
21.	Livestock	1·9	6·6
22.	Fisheries	2·9	3·7
23.	Local : for tea, rubber and coconut	50·9	48·0
24.	Rice	71·8	94·2
25.	Livestock	62·2	58·8
26.	Fisheries	49·7	53·9
27.	Forestry	14·7	15·6
28.	Other agricultural products	120·6	134·3
29.	Services : Distribution cost for exported goods	131·6	122·4
30.	Distribution cost for imported goods for export products	36·1	39·6
31.	Distribution cost for imported goods for rice	5·4	6·4
32.	Distribution cost for imported goods for coconut used locally	3·1	3·3
33.	Distribution cost for imported goods for tea used locally	1·9	2·0
34.	Distribution cost for imported goods for livestock	0·9	2·9
35.	Distribution cost for imported goods for fisheries	1·2	1·6
36.	Services for tea, rubber & coconut	143·9	140.3
37.	Rice	45·8	60·1
38.	Livestock	[illegible]	19·4
39.	Fisheries	15·3	16·9
40.	Forestry	24·1	25·6
41.	Other agricultural products	107·7	111·0
42.	Duties Paid on imported material for exported goods	31·3	21·7
43.	Rice	2·4	1·8
44.	Coconut used locally	1·7	0·9
45.	Tea used locally	1·1	0·6
46.	Livestock	0·5	0·5
47.	Export Duties	251·7	220·6
48.	Selective Sales Tax on Tea	42·1	36·8
49.	Labour : in the production of Tea	475·8	463·5
50.	Rubber	145·2	160·7
51.	Coconut	42.9	34·4
52.	Rice	46·0	60·5
53.	Livestock	53·8	55·8
54.	Fisheries	44·0	48·4
55.	Forestry	56·3	59·6
56.	Other agricultural crops	102·2	105·1
57.	Profits, rent, interest and ownership returns	1,148·1	1,115·1
		3,482·2	3,492·6

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(1) At current market prices. (2) Central Bank of Ceylon, Economic Research Department, National Accounts Division (hereafter referred to as C.B.), Master Tables 1966, file 300, Vol. V., row 2 + row 7. (3) C.B. Master Tables, row 33. (4) C.B. Master Tables, row 3 + row 8. (5) C.B. Master Tables, row 4 + row 9. (6) C.B. Master Tables row 28, includes changes in stocks. (7) C.B. Master Tables row 5 + row 16. (8) C.B. Master Tables, row 21. (9) C.B. Master Tables row 38. (10) C.B. Master Tables, row 39. (11) C.B, Master Tables, row 40. (12) C.B. Master Tables, row 41. (13) C.B. Master Tables, row 44, including changes in stocks. (14) C.B. Master Tables, row 49. (15) C.B. Master Tables, row 54. (16) Value of material inputs used in the production process at current market values. (17) C.B. Master Tables, row 11. (18) C.B. Master Table, row 29. (19) C.B. Master Tables, row 34. (20) C.B. Master Tables, row 22. (21) C.B. Master Tables, row 45. (22) C.B. Master Tables, row 50. (23) Statistical Abstract of Ceylon, 1965, Tables No. 54 (tea), 55 (rubber) and 57 (coconut) on costs of production ; material inputs include fuel. Actual production costs in 1966 were :—Tea : labour 0·9459 Rupee/lb., material inputs 0·2725 Rs./lb., services 0·1956 Rs./lb. For rubber : labour 0·5562 Rs./lb., material inputs 0·0829 Rs./lb., services 0·1001 Rs./lb. For coconut : labour 0·3380 Rs. per 1,000 nuts, material inputs 0·0535 Rs. and services 0·1524 Rs. per 1,000 nuts. Production figures for 1966 taken from Central Bank Annual Report 1966 as 490 million lbs. for Tea production (ibid. p. 146), 289 million lbs. for rubber production (ibid. p. 151) and 1,017 million nuts of coconut (ibid. p. 158). Figures shown in this item relate to total production, i.e., exported and domestically used, and adjusted to changes in stocks. (24) Figures obtained from " Cost of Paddy Production Survey, Yala 1966, Left Bank Gal Oya " giving costs of cultivation per acre. It should be noted that only hired labour was included in the labour content of production cost. Self and family labour were included in profits and ownerships returns. The coefficients for rice are calculated in terms of value of output as : 0·217 for material inputs, 0·132 for services, 0·121 for hired labour and 0·530 for other elements of value added. These represent average coefficients. The coefficients vary considerably according to yield per acre. (25) No data for Ceylon on intermediate consumption of livestock is available. Coefficients for South Korea were taken to represent the mechanical inputs for Ceylon. Source : Industrial Relations Table for 1960, Input Output, Research Department, The Bank of Korea, Table 3. (26) Same source as 25 above. (27) Same source as 25 above. (28) Same source as 25 above. (29) C.B. Master Tables, row 14. (30) C.B. Master Tables, row 12. (31) C.B. Master Tables, row 23. (32) C.B. Master Tables, row 30. (33) C.B. Master Tables, row 35. (34) C.B. Master Tables, row 46. (35) C.B. Master Tables, row 51. (36) Statistical Abstract for Ceylon 1965, see foot note 23 above. (37) *See* note 24 above. (38) *See* note 25 above. (39) *See* note 25 above. (40) *See* note 25 above. (41) *See* note 25 above. (42) C.B. Master Tables, row 13 (43) C.B. Master Tables, row 24. (44) C.B. Master Tables, row 31. (45) C.B. Master Tables, row 36. (46) C.B. Master Tables, row 47. (47) Central Bank Annual Report, 1966, Statistical Appendix, Table 21, item 9 *d*. Figures used relate to financial years 1964–65 and 1965–66 (provisional) as representing 1965 and 1966 respectively. (48) Figures obtained from National Accounts Division Central Bank. They include the selective sales tax on tea in item 9 *d* in Table 21, *see* note 47 above. (49) Statistical Abstract of Ceylon 1965, *see* note 23 above. (50) *See* note 23 above. (51) *See* note 23 above. (52) *See* note 24 above. (53) *See* note 25 above. (54) *See* note 25 above. (55) *See* note 25 above. (56) *See* note 25 above. (57) Residual.

XI—Production Account of Industrial Sector (Rs. Million)

Output	1965	1966
1. Value of Production of		
2. Food preparation, canning & preserving	584·9	720·4
3. Baking, sugar, confectionery	117·5	130·0
4. Soft drinks	20·2	14·7
5. Alcohol	172·0	124·5
6. Tobacco	208·9	22·8
7. Garment industry	47·2	83·8
8. Spinning, weaving & finishing textiles	160·2	166·9
9. Leather	26·7	29·9
10. Rubber processing	22·1	21·9
11. Other chemicals, plastics, chemical fertilizer & basic chemicals	94·4	105·5
12. Paper & printing	115·0	132·7
13. Basic metals & metal products	67·4	73·9
14. Machinery	27·1	40·3
15. Ceramics & glass	25·5	24·4
16. Furniture	198·6	248·3
17. Mineral sands	1·3	1·4
18. Cement structural clay products	73·5	58·0
19. Other	109·7	120·9
20. Coal and gas	5·4	7·2
21. Vehicles repairs	71·2	81·5
Total Output	2,148·8	2,408·0

	Local material 1965	Local material 1966	Imported material 1965	Imported material 1966	1965	1966
22. Intermediate consumption of						
23. Food preparation, canning & preserving	235·9	290·6	84·0	103·5	319·9	394·1
24. Baking, sugar, confectionery	25·3	28·0	34·2	37·8	59·5	65·8
25. Soft drinks	3·6	2·6	7·1	5·2	10·7	7·8
26. Alcohol	—	—	—	—	25·2	19·2
27. Tobacco	—	—	—	—	23·1	23·7
28. Garment industry	11·8	20·9	20·0	35·4	31·8	56·3
29. Spinning, weaving & fininghing, textiles	5·5	5·8	28·4	60·9	63·9	66·7
30. Leather	3·0	3·3	6·1	6·9	9·1	10·2
31. Rubber processing	3·6	3·6	3·9	3·9	7·5	7·5
32. Other chemicals, plastics, chemical fertilizer & basic chemicals	18·9	21·1	24·8	27·7	43·7	48·8
33. Paper & printing	22·2	25·6	39·2	45·2	61·4	70·8
34. Basic metals & metal products	2·7	2·9	44·7	46·8	47·4	49·7
35. Machinery	2·7	4·1	13·6	20·1	14·3	24·2
36. Ceramics & glass	0·7	0·6	0·01	0·0	0·7	0·6
37. Furniture	64·1	80·1	11·9	14·9	76·0	95·0
38. Mineral sands	—	—	—	—	—	—
39. Cement structural clay products	5·7	4·5	8·5	6·7	14·2	11·2
40. Other	14·1	15·5	52·1	57·5	66·2	73·0
41. Coal & gas	—	—	—	—	4·3	5·7
42. Vehicles repairs	—	—	—	—	29·8	34·1
Sub Total					908·7	1,064·4
43. Fuel and power consumption (all sub sectors)					52·5	55·9
44. Services & trade					288·4	330·7
45. Tobacco & alcohol tax					226·3	203·5
46. Wages					354·2	410·8
47. Other elements of value added					318·7	342·7
Total Outlay					2,148·8	2,408·0

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(1) At market prices, based on " A Provisional Estimate of the total output of industries for 1965 ". The estimates are essentially based on Table II (B) a 2, " Value of Industrial Production ", Central Bank of Ceylon, Annual Report 1966. The statistical coverage of this table is incomplete for some sectors. In these cases, the estimates of unaccounted for production are based on supplementary and supporting data from Consumer Finance Survey 1963, Industrial Census, Statistical Abstract, Customs Returns, Small Scale Industries Survey, Population Census 1963, as well as other sources mentioned in the " Provisional Estimates". For 1966, production was obtained on the basis of 1965 figures multiplied by the rate of growth shown in Table II (B) a 2. (2) Excluding tea and coconut processing already accounted for in the Production Account of Agriculture. (5) Including taxes on alcohol. (6) Including tobacco tax. (10) Excluding the processing of raw rubber already accounted for in the Production Account of Agriculture. (22) Input coefficients were calculated for all sectors (except those mentioned below) on the basis of the " Sample " coverage of " Value of Industrial Production ", Central Bank Report 1966, Table II (B) 1.6. (41) Coefficients obtained from input-output table for South Korea, op. cit. (42) Coefficient obtained from input-output table for South Korea, op. cit. (43) Central Bank Report 1966, Table II (B) (a) 7. Same procedure as in note 22 above. (44) Transportation and Services co-efficient for South Korea, (op. cit.) of 0·1511 is used to estimate this item. The coefficient is applied to total production, excluding alcohol and tobacco tax. (45) For tobacco tax *see* C.B. Master Tables, row 65. For taxes on alcohol *see* Table 21, C. B. Report 1966. (46) Central Bank Report 1966, Table II (B) a 1, p. 43. Wage coefficient to total production in the " Sample " coverage is used, except for sectors of coal and gas and vehicle repairs where Korean cofficients are applied ; *see* notes 41 and 42 above. (47) Residual.

XII—Production Account of " Other Sectors "—(Rs. Million)

Output	*1965*	*1966*	*Outlay*	*1965*	*1966*
1. Value of Gross Output of :			10. Intermediate consumption of :		
2. Services Sector	859·4	889·4	11. Services Sector	145·5	156·7
3. Trade Sector	1,013·5	1,082·0	12. Trade Sector	183·0	195·4
4. Transport and Communication Sector	1,129·7	1,217·9	13. Transport and Communications Sector	480·0	517·5
5. Construction and Capital Development Sector	1,499·9	1,352·2	14. Construction and Capital Development Sector	812·4	732·1
			15. Sub-total	1,629·9	1,601·7
			16. Labour in Services Sector	328·2	332·5
			17. Trade Sector	138·5	147·4
			18. Transport and Communications	487·5	525·2
			19. Construction and Capital Development	382·4	344·9
			20. Sub-total	1,336·6	1,350·0
			21. Other elements of value added in		
			22. Services sector	376·7	400·2
			23. Trade sector	692.0	739·2
			24. Transport and Communications	162·2	175·2
			25. Construction and Capital Development	305·1	275·2
			26. Sub-total	1,536·0	1,589·8
6. Total Gross Output	4,502·5	4,541·5	27. Total Outlay	4,502·5	4,541·5
7. Net output of Government Sector	901·2	943·4	28. Value added in Government Sector (labour)	901·2	943·4
8. Net output of Ownership of Dwellings	310·9	317·7	29. Value added in Ownership of Dwellings (non-labour)	310·9	317·7
9. GRAND TOTAL	5,714·6	5,802·6	30. GRAND TOTAL	5,714·6	5,802·6

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(1) Gross value at market prices. (2) Net output figure is obtained from Central Bank Master Tables, row 68, grossed on the basis of Korean coefficients of value added to gross production of 0·8238, and total inputs of 0·1762. (3) Net output figure is obtained from Central Bank Master Tables, row 69, grossed on the basis of Korean coefficients of value added to gross output of 0·8194, and total inputs of 0·1806. (4) Net output figure is obtained from Central Bank Master Tables, row 70, grossed on the basis of Korean coefficient of value added to gross output of 0·5751, and total inputs of 0·4249. (5) Net output figure is obtained from Central Bank Master Tables row 66, grossed on the basis of Korean coefficient of value added to gross output of 0·4585, and total inputs of 0·5415. (6) Total refers to gross output of services, trade, transport and construction sectors only. (7) Grossing the net output of Government is not possible due to non-availability of the relevant coefficient. International coefficients are not applicable. (8) *See* note 7. (10) Obtained on the basis of coefficients mentioned above. (11) *See* note 2 above. (12) *See* note 3 above. (13) *See* note 4 above. (14) *See* note 5 above. (16) The breakdown of value added between labour and other elements of value added is not available for Ceylon for " other sectors ". Relevant coefficients were obtained from the input output table for South Korea, Research Department, Bank of Korea. Net output figures obtained as in notes 2, 3 and 5 above. The coefficient of labour to other elements of value added for services sector is 0·4499 : 0·3738. (17) *See* note 16 above. The coefficient of labour to other elements of value added is 0·1096 : 0·5445. (18) *See* note 16 above. The coefficient is 0·3043 : 0·1004. (19) *See* note 16 avove. The coefficient is 0·2486 : 0·1921. (22) *See* note 16 above. (23) *See* note 17 above. (24) *See* note 18 above. (25) *See* note 19 above. (28) Central Bank Master Tables, row 71. All Government output is regarded as compensation to employees : wages and salaries. (29) Central Bank Master Tables, row 67. All net output of this sector is regarded as non-wage value added.

XIII—Consolidated Production Account of Ceylon (Rs. Million)

	Output	1965	1966
1.	Value of production of		
2.	The Agricultural Sector	3,482·2	3,492·6
3.	The Industrial Sector	2,148·8	2,408·0
4.	The Services Sector	859·4	874·7
5.	The Trade Sector	1,013·5	1,082·0
6.	The Transport & Communications Sector	1,129·7	1,217·9
7.	The Construction & Capital Development Sector	1,499·9	1,352·2
8.	Net output of Government Sector	901·2	943·4
9.	Net output of Ownership of Dwellings	310·9	317·7
10.	Value added, n.e.i.	—	49·4
36.	**Total Output**	11,345·6	11,737·9

	Outlay			1965	1966
11.	Total inputs of				
12.	Agricultural Sector			1,074·1	1,132·1
13.	Industrial Sector			1,475·9	1,654·5
14.	Services Sector			154·5	156·7
15.	Trade Sector			183·0	195·4
16.	Transport & Communications Sector			480·0	517·5
17.	Construction Sector			812·4	732·1
	Sub-total			4,179·9	4,388·3
18.	Value added of				
19.	Agricultural Sector :				
	Labour	966·2	988·0		
20.	Other	1,441·9	1,372·5	2,408·1	2,360·5
21.	Industrial Sector :				
	Labour	354·2	410·8		
22.	Other	318·7	342·7	672·9	753·5
23.	Services Sector				
	Labour	328·2	332·5		
24.	Other	376·7	400·2	704·9	732·7
25.	Trade Sector				
	Labour	138·5	147·4		
26.	Other	692·0	739·2	830·5	886·6
27.	Transport & Communications Sector				
	Labour	487·5	525·2		
28.	Other	162·2	175·2	649·7	700·4
29.	Construction Sector				
	Labour	382·4	344·9		
30.	Other	305·1	275·2	687·5	620·1
31.	Government Sector				
	Labour	901·2	943·4	901·2	943·4
32.	Ownership of dwellings				
	Other	310·9	317·7	310·9	317·7
33.	Value added, n.e.i.		49·4		49·4
34.	Sub-total				
	Labour	3,558·2	3,692·2		
35.	Other	3,607·5	3,657·4	7,165·7	7,349·6
36.	Total Outlay			11,345·6	11,737·9

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(1) Gross value of output at market prices. (2) Total output from Production Account of Agriculture. (3) Total output from Production Account of Industry. (4) Total Output from Production Account of " Other Sectors ". (5) Total output from Production Account of " Other Sectors ". (6) Total Output from Production Account of " Other Sectors ". (7) Total Output from Production Account of " Other Sectors ". (8) C. B. Master Tables row 71. (9) C. B. Master Tables row 67. (11) Total inputs refer to total outlay minus value added and direct taxes. (12) Production Account of Agriculture, excluding export duties including duties paid on imported inputs and selective sales tax on tea. (13) Production Account of Industry, including tobacco and alcohol duties. (14) Production Account of " Other Sectors ". (15) *See* note 14. (16) *See* note 14. (17) *See* note 14. (18) Obtained from relevant Production Accounts.

XIV—A Preliminary Man Power Budget for Ceylon—1966

1.	Male population	6,039,552	
2.	Female population	5,522,016	
3.	Total population		11,561,568
4.	*Less* population below 15 years and above 65 years of age :		
5.	males	2,433,000	
6.	females	2,345,000	
7.	total		4,778,000
8.	Labour forces : male	3,606,552	
9.	,, ,, female	3,177,016	
10.	,, ,, total		6,783,568
11.	*Less* Female Voluntary unemployment	2,414,520	
12.	*Less* male Voluntary unemployment	609,048	
13.	Total Voluntary unemployment		– 3,023,568*
14.	Total labour force		3,760,000

15.	Employment in Agriculture, Forestry and Fisheries		1,734,718
16.	,, ,, Industry, Mining and Quarrying		331,078
17.	,, ,, Construction		88,178
18.	,, ,, Trade		294,692
19.	,, ,, Transport and Communications		136,693
20.	,, ,, Services (Inclduing public utilities)		518,251
21.	,, ,, Unspecified activities		174,390
22.	Total gainfully occupied population		3,278,000
23.	Unemployed Labour force :		
24.	with Technical Education	18,316	
25.	,, Some Primary Schooling	50,610	
26.	,, ,, Secondary Schooling	110,860	
27.	,, G. E. C.	189,426	
28.	,, Higher Education	66,998	
29.	,, No Schooling	45,790	
30.	Total Unemployed		482,000
31.	Total Labour Force		3,760,000

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(1) Based on Department of Census and Statistics, Ceylon, Statistical Pocket Book of Ceylon 1966, Table 7, p. 22 and assuming a growth rate of 2·4 per cent (*see* IBRD, Current Economic position and Prospects of Ceylon, May 10, 1967. Basic data, item 2.). Growth rate is assumend to apply to both male and female population on the strength of the observation that the gap between males and females from 1871 to 1965 seems to be growing at the same rate as total population. (2) *See* note 1 above. (3) The figure applies to mid-year 1966. (4) Age distribution of mid 1965 assumed to be the same for mid 1966. No changes due to lower infant mortality rate or longer life expectations are incorporated. (5) Equals 102·4 per cent of mid 1965 figure. (6) Equals 102·4 per cent of mid 1965 figure. (8) Difference between item 1 and item 5 above. (9) Difference between item 2 and item 6 above. (11) Based on the observation that out of total gainfully occupied population in 1963, of 3,199,730, females are 656,810. The latter represents 12·9 per cent of total female population, and 24 per cent of female population of 15–65 years of age. The remaining 76 per cent are assumed not to be actively seeking employment in the labour market and includes those at school over the age of 15. Improved employment conditions would no doubt activate this dormant supply of manpower. (12) Residual, given the figure of 3,023,568 for total voluntary unemployment (including the school and higher education population above 15 years of age) assumed in the labour force figure of 3,760,000, *see* " Memorandum on Unemployment " Ministry of Planning and Economic Affairs, 1967, p. 7. (13) *See* note 12 above. (14) Total labour force for 1966 obtained from " Unemployment " op. cit. p. B. 18. (15) Employment pattern in various sectors in 1966 assumed to be the same as in 1963. The pattern is obtained from Department of Census and Statistics, op. cit. Table 17, p. 31. Employment in Agriculture represents 52·92 per cent of total employment. (16) *See* note 15 above. Employment in Industry, mining and quarrying represents 10·10 per ceent of total employment. (17) *See* note 15 above. Employment in construction represents 2·69 per cent of total employment. (18) *See* note 15 above. Employment in trade represents 8·99 per cent of total employment. (19) *See* note 15 above. Employment in transport, storage and communication represents 4·17 per cent of total employment. (20) *See* note 15 above. Employment in services represents 15·81 per cent of total employment. (21) Residual to be compared with 170, 170 in 1963, Statistical Pocket Book, op. cit., p. 31. (22) ' Unemployment " op. cit. p. 7. (23) The breakdown of unemployed by educational status has been estimated by the IBRD Mission on Education in their report " Preliminary Survey of Education ", Ministry of Planning and Economic Affairs, 1967. p. 2. It should be noted that their estimate refers to 1963, and their coefficients are applied here for 1966. This would appear reasonable as the pattern of unemployment by educational status is expected to change slowly. However, comparative figures for 1953 and 1963 show a dramatic change with a tendency for heavier unemployment among educated groups. In 1953, 27·9 per cent of the unemployed held the G. C. E. and had some higher and technical education. In 1963, the comparative figure is 57·0 per cent. (24) Ibid, p. 2. representing 3·8 per cent of total unemployment. (25) Ibid, p. 2 representing 10·5 per cent of total unemploymnet. (26) Ibid, p. 2 representing 23 per cent of total unemployment. (27) Ibid, p. 2, representing 39·3 per cent of total unemployment. (28) Ibid, p. 2, representing 13·9 per cent of total unemployment. (29) Ibid, p. 2, representing 9·5 per cent of total unemployment. It should be noted that the percentage breakdown in the IBRD report, op. cit. p. 2, add up to 96·5 per cent ; the remainder has been added to the no-schooling category. (30) Corresponds with the figure for total unemployment in " Unemployment " op. cit. p. 7.

*Figure includes school population above 15 years of age totalling in 1966, 470,000 students of which 443,000 in the General School System, 5,500 in Private schools, 5,500 in Technical institutions private and public and 16,500 in Universities. Figures quoted are 10 per cent above 1965 figures.

PART III

THE DEVELOPMENT PROGRAMME 1967-68

THE DEVELOPMENT PROGRAMME 1967–68

I

The Cabinet, in a directive issued early this year, set out broad guide-lines for the preparation of the Budget for the Financial Year 1967–68. The highest priority was to be given to the allocation of funds for programmes of import substitution. The major emphasis was placed on the programme of food production—paddy, subsidiary food crops, milk, fish and the programmes for import substitution in other major commodities—textiles, cement, petroleum products, fertiliser, hardware, paper, plywood, etc. Priority was also accorded to projects designed to achieve fuller utilisation of existing capacities, e.g. paddy colonisation schemes, where more intensive management of cultivation activities and more vigorous agricultural extension will pay quick dividends. Ministries were also required to make a careful evaluation of the content of their capital programmes, both in relation to policy recommendations that were contained in The Development Programme—1966–67 as well as reorientations that have been suggested by expert missions from the IBRD which examined sectoral programmes in the last financial year. Ministries were directed to pay special attention to the form of their capital budgets and express them in terms of clearly defined programmes related to targets of performance. The preparation of the Capital Budget followed the general principles that were contained in the Cabinet directive.

The Budget for 1967–68 maintains the allocation for the Capital Votes 3, 5, and 7, at approximately the same magnitude as in the 1966–67 Budget. The total financial provision under these Votes amounts to Rs. 782 million, out of which the actual expenditure is estimated at Rs. 667 million. While the financial requirements of the capital budget are based on the estimate of actual expenditure, the allocations under each item are somewhat larger than the estimated expenditure. This budgetary procedure is designed to give the necessary financial authority and operational freedom to Departments to increase the tempo of activity so as to attain the estimated rate of actual expenditure.

The Capital Budgets for the last 3 years from 1965–66 provide for a steadily rising volume of investment by Government. The Government capital expenditure in 1965–66 which was Rs. 528 million registered an increase of approximately Rs. 60 million over 1964–65. Although precise estimates are difficult at this stage, at the current rate of progress the capital expenditure in 1966–67 may not be less than Rs. 600 million ; this represents a substantial increase over 1965–66. The 1967–68 Capital Budget assumes a further expansion of capacity by Government Departments and Public Sector organisations to achieve a 10 per cent increase over the estimated investment for 1966–67.

The Capital Budget for 1967–68 takes the efforts of the 1966–67 Budget a stage further in linking budgetary allocations firmly to a framework of projects and programmes in the different sectors. The sector programmes which were contained in the reports of Sectoral Planing Committees that were set up during 1965–66 as well as the draft development proposals prepared by Ministries have been subjected to nontinued scrutiny and evaluation by the Planning Organisation. These programme have provided a working basis for determining the immediate priorities in tde different sectors. The important elements in the programmes have been selected for inclusion in the budgets. The integration of these investments into an overall plan will follow the preparation of an input–output model for the economy on which work has already begun.

Planning activity on sector programmes has concentrated on three aspects. Primarily an effort has been made to reformulate existing programmes and policies within more realistic schedules of investment and in terms of clearer economic objectives. This work will be described in some detail in the summaries that follow. Next, the individual projects and investment proposals in these programmes have been subjected to a process of project preparation and economic analysis which would ensure the viability of projects which are undertaken. To enable Ministries to undertake this task successfully more reliable techniques of project formulation and evaluation are being introduced. On the one hand, project formulation has been improved ; all the important technical and economic features of a project are fully elaborated and the framework for implementation and operation clearly defined. At the same time, the commercial as well as the national economic profitability of projects is evaluated more precisely. The discounted cash flow method is adopted to take account of the time pattern of both investments and earnings and to determine the net present worth of the project. Thereby the total performance of a project during its lifetime and the benefits which flow from it are clearly ascertained. For analysis of the social benefits and costs of a project, account is taken of the returns to the economy which are not direct returns to the project. These will include a project's contribution to the country's import capacity or growth of technology, its use of scarce resources and skills, its impact on employment, etc. Shadow prices have been adopted to express some of these values ; foreign exchange and technical skills are priced at double their market rate, and unskilled labour is valued at zero. A large number of investment proposals have been processed in this manner and projects have been prepared and evaluated in a form which would both improve the quality of Government investment as well as help to secure external assistance. Of the fifteen projects which were selected for external assistance eleven have been processed in this manner. Finally, these activities are supported by an effort at more effective plan implementation which is directed centrally from the planning organisation itself. The phasing of investments is being rearranged to fit more closely to the operating capacities of the implementing agencies. Programmes have been redesigned to provide for a concentration of effort on the most significant components, so as to ensure more effective use of available resources and the quickest return from the investments already made. A system of regular progress control and evaluation of performance in relation to clearly defined targets is being installed throughout the administration. Forms for progress reporting have been designed to suit the special features of each programme, and a start made in using net work analysis and critical path programming for the preparation of operational plans for major projects. Four quarterly reviews have been prepared on the implementation of the important projects included in the Budgets for 1965–66 and 1966–67. A Committee of Permanent Secretaries evaluates the progress made and takes corrective action on the shortfalls that have been reported. Thereafter the quarterly evaluation of progress is submitted to the Cabinet Planning Committee.

Certain sector programmes such as the agricultural programmes have been analysed into their district components for more effective implementation and progress control. In these areas, an effort has been made to relate administrative action to planned objectives at all levels from the village level upwards, and by this process stimulate mass participation in the Government's development programmes. This effort has to be extended to include other development activities in the districts, and investments in different sectors and by different Ministries co-ordinated as part of a well articulated development drive within the District. Specific recommendations for the required reorganisation of District administration have already been made by an official Committee, and the framework of Government administration is being adapted and strengthened for the task.

II

SECTORAL PROGRAMMES 1967–68

A broad sectoral classification of the Capital Budget for 1967–68 is given below :

Sectoral Classification of 1967–68 Budget

	Rs. Million
Agriculture	239·5
Industry (including Fisheries)	185·2
Economic Overheads	205·8
Social Overheads	117·8
Other Overheads (Administration, Defence, Police, Justice, &c.)	34·2
	782·5

The allocation for investment in the Agricultural Sector has been increased by approximately Rs. 20 million over the 1966–67 level, while the investments in the other sectors are roughly of the same magnitude as in the current year. These figures do not include the extra budgetary outlays made by Government Corporations and Departments such as the Ceylon Transport Board, Petroleum

Corporation and Department of Electricity on the development programmes which are financed wholly or partly from their own resources. On severa Government Programmes where plant and machinery have been purchased on long-term commercial credit, value of equipment received during the year will be considerably more than the budgetary provision which has been limited to the payment of instalments which fall due during 1967/68. When full account is taken of all such investments the total programme undertaken by Government and Public Sector organisations will be in the region of Rs. 850 million.

(i) Agriculture

While the main emphasis in the development programmes in the Agricultural Sector is on the import substitution drive, activities in the export sector are being organised with the objective of strengthening and diversifying the agricultural export base. The investments in 1967–68 in the export sector continue the pattern of development already laid down in the replanting and rehabilitation schemes for the plantation crops. The **tea** replanting scheme which is financed from extra budgetary resources (i.e. cess on tea exports) is being implemented as envisaged in the Agricultural Development Proposals. The annual target for replanting is 5,000 acres. The **rubber** replanting scheme has been improved to provide added incentives for an acceleration of the replanting programme. An allocation of Rs. 22 million has been made; the new acreage on which replanting operations will commence is estimated at 20,000 acres which is the year's component in a total programme for replanting 100,000 acres from 1966–1971. The total acreage replanted by 1970 would be approximately 320,000 acres of which over 200,000 acres would be in production. The **coconut** programme for fertiliser and seedlings is sustained at the planned level. The fertiliser input is estimated at 60,000 tons and the number of seedlings that will be issued at 1·8 million.

The serious shortfall in export earnings in 1966, and the prospect of a continuing decline in the prices for our export crops have however emphasised the inadequacy of existing programmes and the need to work out new strategies for deepening and extending our export base. The Government has therefore initiated action relating to programmes which would stabilise and improve the earning capacity of existing export crops, as well as diversify our export agriculture with new crops. The scope of these programmes include (i) collaboration with other producing countries to formulate policies conducive to stabilisation and improvement of prices ; (ii) improvement of quality as well as further processing of the product to increase its added value both by measures already undertaken such as the modernisation of tea machinery, scheme for improvement of rubber from small-holdings, etc. as well as by new measures such as blending of tea, packetting, refining of coconut oil, manufacture of fatty acids, etc. ; (iii) development of suitable new crops such as oil palm, cadju, fruits, etc. which have an export potential and could be grown on new land or on existing uneconomic plantations ; (iv) full exploitation of the existing potential for new export products, which will include oil from rice bran, tea seed, rubber seed, poonac, etc.; (v) intensification and development of traditional minor export crops such as pepper, cinnamon, etc. A Royal Commission of Tea has already been appointed and a diversification study on export crops is being undertaken by a team of F.A.O. Experts.

In domestic agriculture, the impetus for import substitution has been provided by a combination of radical policy measures and effective implementation. The reduction in the rice ration combined with intensive planning at the district level and a co-ordinated extension drive, has had a highly beneficial impact on the paddy programme. The yield from the Maha crop has been estimated at 34·4 million bushels and is the highest on record. The yield per acre which was 40·34 bushels is also the highest so far attained. The extent of paddy under cultivation for the Yala season is again unprecedented. The restrictions on the import quota for chillies and the rise in producer prices has led to a rapid expansion of chillie cultivation, even though the Government programme for chillie cultivation under lift irrigation fell behind schedule. The ban on the import of potatoes resulted in the highly successful local cultivation of potatoes which became a very popular high-income crop for the farmer. These conditions have provided the incentives which could be used to develop a self-reliant and more productive small-holder agriculture based on a diversified crop pattern.

The total capital allocation for the **paddy** programme in 1967–68 is approximately Rs. 95 million. The import substitution drive in paddy relies on a number of well defined programmes both for the intensification of agriculture on existing paddy lands as well as the irrigation of new land. On the first component a co-ordinated extension programme for the whole Island is being strengthened by a more concentrated agricultural rehabilitation project for colonisation schemes. The second programme includes the major, medium and village tanks, a drainage and reclamation project, the Gal Oya and Uda Walawe multipurpose projects and the major Mahaveli diversion.

The 1967–68 Budget has made adequate provision for the entire complement of extension activities which must support the paddy production programme. On fertiliser, an input of 85,000 tons is being planned. Distribution facilities are being improved by expanding storage capacities at both the district and the village levels. A plant for compounding fertiliser will be installed by the Fertiliser Corporation. The consumption of fertiliser on paddy had not reached the expected levels in 1965–66 and in the Maha season for 1966–67. Distribution facilities at the village level have now been improved. At the same time a special committee is investigating the reasons for the shortfall in the fertiliser input in 1965 and 1966 in order to identify the conditions which have inhibited the use of fertiliser and to recommend corrective action. The capital allocation for minor irrigation is designed to improve irrigation facilities and benefit approximately 110,000 acres of paddy land. Rs. 250,000 has been provided for the seed paddy programme which will help to extend the area cultivated with improved high yielding varieties. Rs. 1·25 million will be spent on plant protection. A new scheme for agricultural credit has been introduced. The 1967-68 Budget has authorised increases in the cadre of agricultural extension staff to meet the increasing work load of the expanding programme. Substantial quotas of foreign exchange have already been released for the import of 2,500 tractors, while adequate supplies of agricultural implements and agro-chemicals have been ensured. An Agricultural Corps. has been organised to employ youth for agricultural development schemes and expedite land clearing and construction operations on land development and irrigation projects.

Of the development programmes in the past, the largest capital outlay has been made on the restoration of tanks and the settlement of peasant communities on the newly irrigated lands. Future programmes are being directed on the one hand at the agricultural rehabilitation of established colonies, and on the other the development of new settlement patterns and a more productive agriculture in new colonies. In regard to the former objective, the Government has initiated a drive for the intensification of cultivation in existing colonisation schemes. These schemes with their reliable supply of water, compact cultivable extents, a land tenure free of problems provide favourable condition for a sustained and well managed programme for increased yields of paddy as well as production of other crops. With the efficient management of water, most of these schemes will provide adequate water for double cropping as well as for lift irrigation of part of the highland. A concentration of extension effort in these schemes will produce quick results and radically transform the subsistence character of peasant agriculture. The Elahara Colonisation Scheme has already been selected for the implementation of the rehabilitation programme ; the problems of implementation will be exhaustively studied in this pilot scheme, and the programme progressively expanded to cover other colonisation areas. In regard to new settlement policies work has begun on planning the development of UdaWalawe with the specific objective of setting out a new and more productive pattern of agriculture that should be established within the scheme. Among other things this committee will make recommendations regarding the size of holding, cropping pattern, etc., consistent with an adequate level of farm income and an efficient agricultural system.

The Irrigation Programme undertaken by the Department of Irrigation contains three major components : gravity irrigation from major, medium scale, and village reservoirs, lift irrigation for cultivation of subsidiary food crops, and drainage and reclamation schemes. In addition the Department has established the possibilities of well irrigation schemes in the Mannar and Puttalam Districts. The total allocation for the programmes for irrigation of new paddy land amounts to Rs. 37·7 million; this excludes the allocations under multi purpose projects. The programme for the restoration of tanks has been rearranged in relation to the future development possibilities of the Mahaweli basin under the Mahaweli Diversion Scheme. Under major and medium scale reservoirs an extent of approximately 20,000 acres of new land will be provided annually with irrigation facilities, excluding the extents brought under irrigation in the major multi-purpose schemes. The reclamation schemes will contribute approximately 5,000 acres a year, while the village tanks will benefit approximately 7,500 acres. The lift irrigation and the Drainage and Reclamation programmes have been reformulated to provide for more effective implementation in a more concentrated area than originally envisaged. The activities on continuing works have been rephased to give priority to the completion of those schemes where a major portion of the investment has already been made, and where distribution facilities could be provided with small supplementary investments. The most productive and tractable elemets in the various development proposals have been combined into an effective programme consistent with the resources that could be allocated and within the operational capacity of the Department. Over a long period, the Department had not received allocations for the purchase of new machinery and equipment. with the result that there has been a progressive depletion in its stock of effective machinery and a reduction in its capacity for implementation. During 1965–66 and 1966–67 the Department has been authorised to purchase equipment to the value of about Rs. 18 million. This investment on machinery will equip the Department adequately for its present programme of work.

The feasibility report on the *Mahaweli Diversion Scheme* prepared by the U.N. team of experts has been submitted to Government. The Master Plan for the development of the Mahaweli basin envisages the construction of 58 reservoirs and diversion schemes, with a capacity to irrigate approximately 650,000 acres of new land and 250,000 acres of land already cultivated. The full power potential in the scheme is estimated at 900 megawatts. The total cost of the integrated development of the Mahaweli basin will be in the region of Rs. 6,000 million. Although the total investment required for the Mahaweli Project is unprecedented in magnitude, it will be phased over a period of about 20 years. The Scheme could be implemented in successive stages each of which appears to be economically viable and will bring benefits immediately after completion. The first phase of the Mahaweli consists of a diversion at Polgolla, with a dam at Moragahakanda to benefit approximately 216,000 acres on the L.B. of the Mahaweli, and a reservoir at Victoria Falls to benefit approximately 87,000 acres on the Right Bank. The combined capacity of power generation from these projects will be approximately 115 megawatts. Work on this phase of the Mahaweli Project can commence in 1968. On a preliminary evaluation of the Scheme, the power and irrigation benefits appear to justify its implementation. The Mahaweli diversion, with its perennial supply of water will radically transform peasant agriculture in the dry zone, stabilise the conditions required for the improvement of cultivation methods and agricultural skills, and vastly increase productivity. The country would need to mobilise adequate resources both external and domestic for implementation of this project. In terms of this programme, the major portion of the investments on irrigation and power which at present absorb approximately Rs. 150 million a year, would need to be deployed for the development of the

Mahaweli Scheme. The Project could become a focal point in the national development effort over the next three decades and provide a steady stream of benefits to the economy.

The 1967–68 capital allocation for the **subsidiary foodcrops** programme amounts to approximately Rs. 16·8 million; of this Rs. 5·4 million will be spent on the potato development programme. The programme for the local production of chillies and onions has identified a cultivable extent of approximately 20,000 acres mostly in the highland in dry zone colonisation schemes. The lift irrigation project which will be confined to major colonisation schemes covers 13,500 acres. Gravity irrigation schemes will contribute about 6,000 acres. The youth settlement schemes will provide another 1,000 acres. The commercial scale cultivation of these crops by the private sector will make a further contribution to the programme. However, the extent selected for new cultivation has to be more than doubled before self-sufficiency could be achieved. Furthermore the performance during the last year on the current Government programme has fallen behind the prescribed targets. The various aspects that have retarded progress are now being examined and the technical and economic planning of the projects is being improved. The existing capacities for implementation have been reinforced by mobilising the services of large private sector engineering firms to work on one of the largest schemes in the programme, i.e., the Irrigation Project in Mutthuyankaddukulam. At the same time new possibilities for expanding the programme are being investigated. There is a considerable potential for increasing productivity on lands now under rain fed cultivation and for this purpose the Ministry of Agriculture and Food is planning a systematic extension effort. The achievement of self-sufficiency of these crops will also depend on the success of the programme for efficient water management in the colonisation schemes and the consequent expansion of the extent under lift irrigation.

Approximately 5,000 acres will be under **potato** cultivation during 1967. A further expansion is being planned for 1968. The 1967–68 budget has made allocations for construction of storage facilities for seed potatoes as well as other related extension activities. If the full import substitution benefits of this programme are to be secured it has to be supported by an intensive effort for the local production of seed potatoes, the bulk of which is now being imported. Specific measures are now being taken to extend the area under cultivation of potatoes for seed.

The provision for **forestry** in the 1967–68 budget is roughly at the same level as in 1966–67. The Forest Department will continue its programme on regeneration and forest roads. The expanding industrial and construction needs for timber demand a much faster rate of exploitation than what the present capacity of the Forest Department can sustain. Available forest resources are estimated to be more than adequate to meet the expansion of demand. Specific measures will be taken to achieve a rapid and very substantial increase in the extraction of timber. As accessible forest areas are being steadily depleted, an extensive network of roads which will bring access to new forest areas will be constructed with the utmost speed. Mechanised methods of exploitation will be tried out and adapted to local conditions. Lumbering operations will be organised as a full scale commercial undertaking separate from the other activities of the Forest Department, and a new organisational set-up established for the purpose. The possibility of reorganising the present system of contracts to encourage large-scale investment on a continuing programme of exploitation will be explored. With the extraction of utility timbers in adequate quantities to meet domestic demand, the expensive hardwoods that are available could be conserved for export. Programmes in the coming year will cover all these objectives.

The **Milk** Programme receives an allocation of Rs. 9·6 million. The condensery which will produce 25,000,000 cans in two shifts will be commissioned at the end of the current calendar year. The planned production will meet the country's present demand for this item. In the initial stage it will rely largely on imported raw materials. The milk supply to the condensery is being organised around three programmes. (i) The Government will develop the Polonnaruwa cattle farm to a herd strength of 4,500 cows by 1970. About 1,400 suitable animals are already available. (ii) The large scale private sector farms at Tamankaduwa will eventually carry a herd of 4,000 cows in the first phase. (iii) The village herds in the outlying areas and in Amparai will be developed and their full potential exploited. On the Government component all essential elements relating to the dairy management patterns, pasture development, and phasing of investment have been worked out. Progress on the private sector component has been slow ; a project analysis of a prototype farm showing the benefits and costs of the project has been provided as a guide to the private sector and programmes of investment for each farm are being prepared. In regard to the village herds Government will organise an intensive breeding programme for the upgrading of herds and improvement of milk yields.

The next development in the milk programme centres round the establishment of the Spray Drying Plant and the Expansion of the temperate herds.

The Ministry of Agriculture and Food has made preliminary investigations into the feasibility of establishing a Spray Drying Plant. The planned capacity of the proposed plant will be about 2·9 million lbs. per annum on one shift. This production will amount to approximately 25 per cent of current imports. The natural increase of the temperate herds and the resulting increase in milk supply will create conditions that will be favourable for the establishment of such a plant in the near future. The third element in the programme is the supply of milk for domestic consumption in Colombo and other Urban Centres which will require new sources of supply when present supplies are diverted to the Milk processing plants. A start has been made with the low country dairying programme based on coconut pastures. It is however, necessary to delineate this programme in greater detail, to identify prospective investors and to link them with a specific extension programme designed to expand dairying in this area.

TABLE I

SUMMARY OF PROGRAMMES IN 1967–68 BUDGET—AGRICULTURAL SECTOR

Programme	1967–68 Budget		1966–67 Budget	Provisional Targets of Production by 1970
	Programme	Allocation Rs. Million	Allocation Rs. Million	
1. **Export Crops**				
(i) **Tea**				
(*a*) **Replanting** ..	5,000 acres	(Extra Budgetary (18·5 Tea subsidy Fund))	(Extra Budgetary *18·5* Tea subsidy Fund)	579 m. lbs.
(*b*) **New Plantation—**				
(i) **State Plantations Corporation**	Continuation Work	4·48	*5·0*	
(ii) **Peasant Colonisation** ..	Continuation Work	2·21	*2·5*	
(iii) **Youth settlement** ..	Continuation Work	0·56	*3·2*	
(ii) **Rubber**				368 m. lbs.
(*a*) **Replanting** ..	20,000 acres	22·00	*20·0*	
(*b*) **Peasant Colonisation** ..		0·08		
(iii) **Coconut**				3,200m. nuts
(*a*) **Fertilizer Subsidy Scheme** ..	64,000 tons	11·87	*10·0*	
(*b*) **Seedling Distribution Scheme**	1.8 m. seedlings (25,000 acres)	0·90	*·9*	
(*c*) **New Plantations—**				
Peasant Colonisation ..	Continuation Work	2·32	*1·3*	
Youth Settlement ..	Continuation Work	0·92	*1·8*	
Replanting of uneconomic Citronella lands	Maintenance of 1.3 m. plants (22,000 acres)	0·63	*·8*	
(iv) **Cocoa** ..	(i) Liabilities on old scheme	0·15 } 0·61		
	(ii) Replanting subsidy (1,500 acres plus liabilities)	0·46	*·9*	

(v) Cadju—State Plantations Corporation	Continuation Work	0·19	*0·14*	
		46·77		
2. **Paddy**				930,000 tons rice
(i) *Increased Production from existing land*				
(*a*) Fertiliser Distribution ..	85,000 tons	17·00	*14·4*	
(*b*) Fertiliser Storage ..		2·10	*2·5*	
(*c*) Fertiliser Mixing Plant ..		3·10		
(*d*) Minor Irrigation ..	110,000 acres	8·70	*8·0*	
(*e*) Seed Paddy Scheme—Storage		0·25		
(*f*) G. P. S. Storage ..	100,000 sq. ft.	2·00	*2·5*	
(*g*) Milling ..		0·55		
(*h*) Pest and Weed Control ..		1·25	*1·25*	
(*i*) Rehabilitation of Saline land ..		0·33		
(*j*) Other Extension Services ..		4·18		
(ii) *Development of new land*				
(*a*) Major Irrigation Projects	35,000 acres	36·56*	*37·5*†*	
(*b*) Medium-scale Irrigation Projects				
(*c*) Village works				
(*d*) Drainage Schemes		1·21		
(*e*) Settlement of colonists—land clearing, housing civic amenities	Work based on Irrigation Programme	15·11	*17·5*	
(*f*) Financial Assistance to Colonists		3·60	*4·5*	
		95·94		

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* Excludes Irrigation schemes for the programme on Subsidiary Food Crops.

† Includes provision for roads and buildings.

TABLE I—(*Contd.*)

SUMMARY OF PROGRAMMES IN 1967–58 BUDGET—AGRICULTURAL SECTOR

Programme	1967–68 Budget			1966–67 Budget	Provisional Targets of Production by 1970
	Programme	Allocation Rs. Million		Allocation Rs. Million	
3. **Subsidiary Food Crops and Dry Farming**					
(i) Potatoes ..	Potato Farms Potato Extension—5,000 acres	0·63 4·80	5·43	*·7*	Potatoes 30,000 tons
(ii) Chillies and other crops ..			11·07	*6·2*	Dried chillies 16 m. lbs. Bombay onions 16 m. lbs.
(iii) Vegetables and fruits—Distribution and Canning	Cold Storage Plants Transport	0·08 0·29	0·37	*1·0*	
			16·87		
4. **Sugar Cane**					
Gal Oya ..	Continuation Work } Extra Budgetary			*3·5*	
Kantalai ..	Continuation Work			*3·5*	28,000 tons sugar
5. **Cotton** ..	Continuation Work		0·05	*1·4*	
			0·05		
6. **Multi-purpose Schemes**					
(i) Gal Oya ..	Continuation Work		10·00	*18·0*	
(ii) Uda Walawe ..	Continuation Work		40·00	*15·0*	
			50·00		

7. **Forestry**					
(i) Regeneration ..	21,000 acres (and maintenance of existing areas)		3·61	*3·0*	
(ii) Exploitation of Forests ..			·78	*1·2*	
(iii) Other Investments ..			0·01		
			4·40		
8. **Milk** ..					Condensed Milk 25 m. lbs. FCM Powder 2.5 m. lbs. Butter 1.6 m. lbs.
(*a*) Distribution of Milk, Sterilising Plant and equipment	Continuation Work		1·37	*3·0*	
(*b*) Cattle Farms and Dairy Development	Tamankaduwa/Polonnaruwa	4·61	8·30	*9·1*	
	Ambewela/Bopatalawa	3·20			
	Other Farms	0·49			
			9·67		
9. **Meat and Eggs**					
(i) Herds ..	Sheep and Goat Project	0·60	2·98		
(ii) Veterinary Services ..		0·65			
(iii) Youth Schemes (Poultry, &c.) ..		1·73			
			2·98		
10. **Other investments in the Agricultural Sector**					
Survey, Land Acquisitions, Meteorology, Nutrition Projects, Buildings, Transport, &c.			12·82		
			12·82	*8·0*	
	Total for Sector		239·50		

N.B.—The figures given in the functional classification of the Budget will not be comparable with the figures in these summaries, for all programmes. The allocations shown in the summaries have been adjusted for net figures in instances where the Budget has made gross provision e.g. Education Dept. Votes, P. W. D. Votes. The classification of functions and activities in the Budget is also not identical with the programme classification in the summaries.

(ii) Industry

Table II contains an analysis of the capital allocations for Industries and Fisheries, by projects and porgrammes. The principal feature in the programme of industrialisation both in the public and private sectors has been the emphasis on import substitution. The public sector investments have concentrated on the import substitution of basic commodities which with a few exceptions rely for their raw materials largely on domestic sources ; the spurt of private sector industrialisation during the period 1960-64 was in the direction of light consumer industries which leaned heavily on imported intermediates.

During the current year a large number of public sector projects which required heavy investments and had a relatively long period of gestation have reached the stage of production. The Steel Rolling Mill has started production. The Tyre Factory has commenced the manufacture of Tyres and Tubes. The Hardware Factory has begun producing construction fittings and agricultural implements. The Plywood Factory has expanded its production by approximately 65 per cent. Part of the expansion schemes of the Salt Corporation, located in Elephant Pass and Palavi will be completed before the end of the year and will in all probability eliminate the imports of salt. The Fisheries Corporation has commenced both deep sea and coastal fishing operations and has already exported a small quantity of tuna. The 2nd Ceramics Factory which has gone into production will treble the domestic output of crockery, and manufacture the country's requirements of sanitaryware. The 2nd kiln in the KKS Cement Factory and the Galle Clinker Plant both of which are in production have more than doubled the domestic production of cement. Two projects which will be completed by the beginning of 1968 are the State Flour Mill and the Rutile and Zircon Plant. The manufacturing activities of all these projects will result in a substantial increase in the domestic industrial output during the current year, and also make a sizeable contribution to the country's import capacity.

The public sector investment in industry during the next year will continue the programme of import substitution in major commodities. These include textiles, cement, petroleum products, fertilizer, salt, plywood, paper, steel and foundry products, and fisheries.

In regard to **cement**, allocations have been made for the completion of work on the renovation of the old kiln at KKS, the establishment of the third grinding plant, the balance ancillary investments in Galle, and the continuation work in Stage I Puttalam. The renovation of the old kiln will increase the local output by another 100,000 tons over the present output of 160,000 tons. Stage I Puttalam will bring local production of cement to 480,000 tons by end of 1969 ; with the output from the clinker grinding plant in Galle which will grind another 100,000 tons of imported clinker, domestic production of cement will make the country self-sufficient in this commodity by 1970. Investment on Stage II Puttalam which will increase capacity by another 300,000 tons will commence shortly and will look after the country's requirements of cement till about 1973.

An allocation of Rs. 36·3 million has been made for public sector investment in the Textile Industry. A major portion of this expenditure will be incurred on the integrated Textile Mill at Thulhiriya which is one of the largest industrial projects to be undertaken in the country. The investments that have been planned in the public sector, together with foreign investments which have been approved for an output of approximately 40 million yards, will meet the import substitution target of 150 million yds. for cotton textiles set for 1970. Additional investment, however, will be required to increase spinning and finishing capacities to match the weaving capacities that would be installed, if the full import substitution benefits are to be realised from the local textile industry. The necessary supplementary investments are being planned. However the implementation delays that have occurred in the powerloom project undertaken by the Rural Development Department and the second integrated Mill at Ambalangoda both of which constitute an important segment of the textile project have to be made good by more effective programming and progress control if the targets for import substitution are to be fulfilled. At the same time the local textile industry has to be organised to meet the increasing sophistication in demand. With this end in view a relatively small and viable synthetic component has to be developed. For this purpose the Development Division proposes to make fuller use of existing capacities, and has also approved a few additional investments in this segment of the industry. The Handloom Sector which is planned for a capacity of approximately 57 million yards will be incorporated into this programme with necessary improvements in product quality, and a more rational specialisation of its production. The programme of 1,000 handloom centres will be completed in 1967–68 and will manufacture approximately 20 million yds. a year when in full production.

In regard to **paper**, the major portion of the investment on the Paper Board Mill will be made during the coming year with the objective of completing the project in the early part of the Government Financial Year 1968–69. Investigations are being made for the establishment of a second paper factory which could make a substantial contribution to import substitution in this commodity.

In the group of projects relating to the **iron, steel and engineering** industries, the Government expects to complete the Cast Iron Foundry for the production of cast iron pipes during the calendar year 1968, and commence work on the Steel Foundry and Structural Shop at Oruwela during 1967–68. The output of all these projects will replace current imports. A major project planned in this branch of industry is the assembly of truck and bus chassis. This project will be undertaken as a joint venture in which the State will participate with a leading international automobile firm. The project is planned in three stages ; the first stage will be limited to the assembly of complete imported units of the chassis, the second will proceed to the production of chassis from semi-manufactured imports which will be finished locally, and in the third a substantial portion of the units will be cast locally in the Cast Iron and Steel Foundries that will be established. The project is phased to ensure that the 1st and 2nd stages will be completed in about 3 years in order to maximise its foreign exchange benefits. The economic significance of this project does not depend only on the contribution it will make to foreign exchange savings and the supplies it will assure to the transportation sector both in regard to road haulage and passenger road transport. This and the other steel and iron industries properly directed and managed will develop new and complex industrial skills and deepen and strengthen the technological base for the country's industrial growth.

Satisfactory progress has been made on the projects based on **petroleum products**. Work has started on the Petroleum Refinery at Hapugaskanda and the Lubricant Blending Plant at Kolonnawa. The total investment on these projects proposed from budgetary and extra budgetary sources will be Rs. 40 million approximately.

The project for the Chemical **Fertiliser** Plant has now been fully formulated. The factory will be based on a single product, urea, on an installed capacity of 140,000 tons of nitrogen. The production in 1971 which will be approximately 60 per cent of capacity will meet 90–95 per cent of the country's requirements of nitrogenous fertiliser. The agricultural aspects of the use of urea on the country's major crops have been examined. Work on this project will commence in the financial year 1967–68 ; the construction period is around 3 years. The original location of this factory has been changed, and it is now being sited adjacent to the Refinery at Hapugaskanda to enable it to maximise on the economies of transport as well as other utilities such as water.

The various technical and economic features of the proposed 2nd plant for manufacture of **plywood** and **chipboard** have been fully evaluated by a firm of consultants and the projects has been prepared for implementation. Original capacities of this plant too have been increased on a more realistic assessment of demand for plywood products. Work on this project will commence in 1967–68. With the completion of this project the country will be self-sufficient in its plywood requirements for the tea industry.

Provision has also been made for the modernisation and expansion of the **Tannery** of the Ceylon Leather Corporation. This project will incorporate the latest technical processes for upgrading of local hides, will eliminate imports of chrome leather and will also substitute for imported artificial leather used for shoe manufacture.

The **Salt** Industry is being planned to meet the expansion of demand for existing industries and household consumption, as well as to provide for the development of new salt-based industries. The feasibility of the project-complex including soda ash, glass, caustic soda, which has a considerable potential for import substitution is being studied. Meanwhile engineering designs for the salt output of 115,000 tons in the Jaffna Lagoon, is being undertaken by a foreign firm. The immense potential in this area for expansion of the salt industry holds out promise of a substantial export earning capacity on which a specific programme of action needs to be prepared.

In private sector industry the Development Division has within the limitation of foreign exchange resources attempted to achieve a fuller utilisation of installed capacity by larger foreign exchange releases. This has been done on a broad scheme of priorities. While industrial output in 1966 recorded a substantial increase it is expected that a similar expansion will be achieved in 1967. Approval of new industrial investments by the private sector which had been suspended since 1964 has now been resumed. Investments have been approved for about 60 industrial ventures in the private sector in areas where expanding domestic demand for essential commodities and possibilities of import substitution justify the creation of new capacity[1]. Government's new policies in regard to private foreign investment have begun to show results. Private foreign capital amounting to about Rs. 30 million will be invested in new industrial ventures which are being established in partnership with local capital[2]. Work on some of these industries has already commenced. A number of them will be ready to go into production in the coming year.

There is no doubt that the industrialisation programme will have to play a dominant role in bringing about the structural changes in the economy which are necessary to transform its technological base, to develop the skilled manpower for a sustained expansion of employment opportunities, and create new productive capacities that will strengthen the country's foreign exchange position. Industrial growth has reached a stage where new directions in industrial planning have to be sought. The investments that are being undertaken, and have already been planned will soon exhaust the possibilities of import substitution. Expansion of domestic demand is not rapid enough to sustain a continuing stream of investments in the same industries. Consequently, if industrial investment is geared to import substitution there will be marked interruptions in industrial investments until the expansion of the local market justifies another round of investment.

However, possiblities to intensify import substitution in manufacturing industries exist in a limited area where existing industries could progressively find domestic substitutes for imported intermediates. In many cases the incentives for such investments are not adequate, as they are not likely to increase the commercial profitability of the existing industries. It is necessary however to identify the numerous import substitution opportunities that are available in existing manufacturing industries and formulate a phased programme for increasing import substitution and effecting a progressive reduction of foreign exchange allocations. Preparatory work on this task is already being undertaken.

Next it is necessary to formulate a detailed strategy for the expansion of the export oriented base in industry. On a restricted scale it would be possible to secure export markets for the excess capacity that exists in a wide range of consumer industries which have been established including garments, confectionery, etc. Already the bonus voucher scheme has in small measure provided an incentive for local industry to explore foreign outlets for their products. Apart from private initiative in this direction, a start has also been made to promote non-traditional exports through bilateral agreements. Wherever possible, more systematic studies will be undertaken on a bilateral basis to identify areas where trade in industrial goods could be expanded, and where complementarities in industrial capacity could be developed on mutually beneficial terms.

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[1] *Vide* appendix A

[2] *Vide* appendix B

A substantive programme would have to be formulated on a larger scale to develop a nucleus of export-oriented industries based on certain selected commodities. In a wide range of products such as petro-chemicals, cement, ceramics, plywood, fertiliser, rubber products, steel products, products based on coconut and other vegetable oils, possibilities exist particularly in the expanding markets of developing countries. But feasible prospects of foreign markets could be secured primarily through some measure of bilateral or multilateral agreement which will ensure a complementarity in industrial expansion between the countries, and through foreign participation which is capable of assuring a foreign market for the major part of the additional output. Policies in all these directions need to be vigorously pursued.

The allocation in the coming year for the **fisheries** programme is approximately Rs. 29 million. In addition the Government will continue the loan scheme for the expansion of the coastal fishing fleet and the mechanisation of existing craft. The major portion of the allocation to fisheries will go into the continuing programme on the development of harbours and shore facilities and the expansion of the existing fishing fleet. Deep sea fishing operations have been started on a pilot scale. A fleet of about 35 11-ton mechanised boats designed for off-shore fishing is also in operation. All-weather fishing craft of larger design are being constructed and their operating efficiency will be tested in the coming year. The viability of these operations and the management pattern for the new off-shore fishing fleet are being studied by the Corporation with a view to establishing a sound managerial and economic base for further expansion of these activities. On the results of its present operations the Corporation would be able to select the most economical and efficient types of craft and develop a fleet with a wide range of capacity adapted for fuller exploitation of the fishing potential in the coastal as well as deep sea fisheries. A full scale investigation of coastal harbours has been entrusted to a foreign firm in order to establish and determine the priorities for establishment of a sound Island-wide infra structure for coastal fishing. A feasibility study for an integrated fisheries project at Trincomalee to be undertaken as a joint venture with a foreign firm, has been undertaken by a team of consultants. The I.B.R.D. has made preliminary investigations for financing a coastal fisheries project, including shore facilities, harbours, fishing fleet, transport equipment and management expertise. It will be possible in the coming year to reformulate the fisheries programme incorporating all the economically viable elements which emerge from these studies and the present operations of the Corporation.

TABLE II

SUMMARY OF PROGRAMMES IN 1967–68 BUDGET—INDUSTRIAL SECTOR

Programme	*1967–68 Budget*		*1966–67 Budget Allocation Rs. million*	*Provisional targets of production for 1970*
	Programme	*Allocation Rs. million*		
Industries—				
(i) Textiles—				
Large Scale	Integrated Textile Mill; 2nd Textile Mill and a Finishing Mill with total capacities of— (*a*) Spinning—21 million lbs. of yards (*b*) Weaving—24 million yards of fabric (*c*) Finishing—70 million yards	30·5	3·5	Cotton Textiles 150 million yards
Medium Scale	Continuation work on 50 power-looms Total capacity 22 million yards woven fabric	4·3	6·85	
Small Scale	Continuation work on 1,000 hand-looms Total capacity 20 million yards woven fabric	1·5	6·9	
(ii) Cement	Completion of KKS Expansion— Capacity 270,000 tons cement Completion of Galle Grinding Plant— Capacity 100,000 tons cement Continuation of work on Puttalam Stage I— Capacity 220,000 tons cement Preliminary work on Puttalam Stage II— Capacity 300,000 tons cement	34·0	35·0	590,000 tons

TABLE II—(*contd.*)

SUMMARY OF PROGRAMMES IN 1967–68 BUDGET—INDUSTRIAL SECTOR

Programme	*1967–68 Budget*		*1966–67 Budget Allocation Rs. million*	*Provisional targets of production for 1970*
	Programme	*Allocation Rs. million*		
(iii) Wood based Industries—				
(*a*) Plywood	Commencement of work—2nd Plywood Factory Capacity 56,100,000 sq. ft. plywood 3·6	6·0	3·0	86 M. sq. ft. Plywood
(*b*) Chipboard	Chipboard Plant— Capacity 4,570,000 sq. ft.	—	4·0	4·6 M. sq. ft.
(*c*) Furniture	—	—	·3	—
(iv) Paper	Continuation work on Paper Board Mill Capacity 9,000 tons	14·0	8·4	Paper—9,000 tons Paper Board—9,000 tons
(v) Ceramics	Construction of Additional Kiln—increasing existing capacity at Negombo by 160 tons	·7	3·2	Crockery 2,700 tons Sanitaryware, etc.—500 tons
(vi) Tiles and Bricks	Brick Factory—Commencement of work on Brick Factory at Hanwella—17 million bricks capacity	2·5	3·0	17 million bricks
(vii) Cast Iron Foundry	Continuation work on Foundry of capacity 6,000 tons castings in 1 shift	5·9	8.0	6,000 tons castings
(viii) Steel	Commencement of work on Steel Foundry 700 tons capacity ; Structural Shop 3,800 tons capacity ; and Galvanising Plant	3·0	19·5	700 tons castings 3,800 tons structural products 49,000 Rolled Steel products
(ix) Tyre	Outstanding payments	0·1	6·0	250,000 tyres 250,000 tubes

(x) Salt	Commencement of work—Jaffna Lagoon Scheme—Capacity 115,000 tons of salt	1·0	3·8	90,000 tons
(xi) Leather — Tanning	Tannery— Commencement of work— Capacity 1,250,000 sq. ft. Chrome leather 430,000 lbs. vegetable leather	3·0 — 	1·5	1·25 million sq. ft. Chrome leather 430,000 lbs. vegetable leather
(xii) Fertiliser Factory	Continuation of work on Fertiliser Plant—Urea capacity 300,000 tons	19·0	15·6	—
(xiii) Fuel Oils and Lubricants Refinery	Continuation of work on Refinery—Throughput capacity 1,700,000 tons	20·0	23·0 } Extra Budgetary	1·7 M. tons throughput
Blending Plant	Completion of work on Blending Plant—Capacity 20,000 tons	Extra Budgetary	3·7 }	19,000 tons
(xiv) Flour Milling	Completion of work on Flour Mill— Capacity 80,000 tons Flour and 16,000 tons Bran	5·0	3·7	50,000 tons flour 16,000 tons Bran
(xv) Construction — State Engineering Corporation	—	7·0	9·0	
(xvi) Coir	—	·3	·35	—
(xvii) Mineral Sands	Completion of work— Capacity 10,800 tons Rutile 9,500 tons Zircon	—	2·0	10,800 tons Rutile 9,500 tons Zircon
(xviii) Distillery	—	1·9	1·4	—
(xix) Vegetable Oils and Fats	—	—	2·1	—
(xx) Industrial Promotion and Research—				
(*a*) Industrial Estate	—	T.V.	1·0	—
(*b*) Small Industries Services Institute	—		·8	—
(*c*) Industrial Development Board	—	4·9	·75	—
(*d*) Investigations and Research	—	2·5	2·5	—

TABLE II—(*contd.*)

SUMMARY OF PROGRAMMES IN 1967-68 BUDGET—INDUSTRIAL SECTOR

Programme	*1967–68 Budget*		*1966–67 Budget Allocation Rs. million*	*Provisional targets of production for 1970*
	Programme	*Allocation Rs. million*		
Fisheries—				
Boats	Introduction of boats	4·6	15·5	—
Harbour, shore Facilities	Continuation work on Grade A, B and C Harbours	15·4	21·250	—
Brackish Water Fisheries	Work on Pitipana Brackish Water Fish Farm to commence	0·5	2·0	—
Marketing	Establishment of wholesale markets at Kurunegala and Kandy	2·1	1·5	—
Gear Factory, Boat-yards and Workshops	Continuation work on boat-yards and workshops. Work on Gear Factory to commence	2·8	2·3	—
Communications—Navigational and Fishing Aids—				
Research—Vessel, Equipment, &c.	Procurement of Research and Commencement of work on Training Centre	2·0	2·0	—
Training and Research Centre				
Other items—Stores, Office Equipment	—	1·85	3·7	—
	Total expenditure shall not exceed	185·2	185·0	

N.B.—The figures given in the functional classification of the Budget will not be Comparable with the figures in these summaries, for all programmes. The allocations shown in the summaries have been adjusted for net figures in instances where the Budget has made gross provision, e.g., Education Department Votes, P.W.D. Votes. The classification of functions and activities in the Budget is also not identical with programme classification in the summaries.

(iii) Economic Overheads

Table III summarises the allocation in the 1967–68 capital budget for Economic Overheads. The special characteristics of infra structure investments require very close attention in the preparation of an efficient programme of investment. These investments require a long period of gestation, make a heavy demand on the country's capital resources, and create capacities which are adequate to meet demand for a comparatively long period. Therefore, investment proposals on Economic Overheads submitted by Ministries have been carefully evaluated for their impact on growth ; capacities that are proposed have been assessed in relation to essential demand, and where possible, programmes have been appropriately scaled down.

The programme for **power** will absorb approximately Rs. 80 million which is approximately 38 per cent of the entire allocation. The major portion of the work on Maskeliya Stage I will be completed in 1967–68. The project will come into operation in mid 1969, and will increase the present generating capacity of 153 M.W. by an additional 50 per cent, or 75 M.W. Simultaneously the Transmission system will be extended to Jaffna and Trincomalee to provide hydro-power to the entire Island and reduce the country's dependence on thermal generation with its high foreign costs. During the last year a reappraisal of the investment on Transmission Lines to the North was made by an I.B.R.D. Mission and a modified scheme which resulted in a reduction in costs has been adopted. Investigations on Maskeliya Stage II have already been initiated. This project will provide another major block of power to meet the shortage that will develop by 1972 according to present forecasts. The power potential of the Mahaweli Project is being studied for its possible impact on the power development programme already undertaken and for incorporation into the future programme.

A Commission appointed to examine the **transportation** system in the country completed its sittings and will submit its recommendations shortly. The scope of its inquiries included problems of co-ordination among competing transport services and possible means of making maximum use of existing capacities. I. B. R. D. aid has been obtained for a highway maintenance project which on the one hand will reorganise the system of highway mainnance on a sounder basis, and on the other undertake the actual rectification of **roads** and **bridges** to improve the existing network. This would be based on the recommendations that have been already made by a team of consultants, and the work would be undertaken on an order of priority based on technical and economic considerations. The programme for development of new major roads includes diversion roads and bye passes in and around Colombo to cater to the increasing volume of traffic, and trunk roads for the developing and newly developed areas. Only a segment of this programme has been included in the 1967–68 Budget. This programme would have to be formulated on a more detailed evaluation of priorities and a schedule of investments prepared within available resources. The total allocation for roads in 1967–68, including both the network of P. W. D. roads as well as agricultural roads and roads in underdeveloped areas undertaken by other agencies amounts to Rs. 35·5 million.

The **Railway** has finalised the Tenders for the supply of equipment for its Dieselisation Programme to replace steam with Diesel locomotives ; it will start implementing the programme in 1967–68. Based on the dieselisation of the Railway, a reorganisation in the staffing, costing and operation of the Railway will be undertaken. Closer co-ordination of the road and rail transport systems need to be worked out to ensure fuller utilisation of the Railway for bulk transport and long distance passenger haulage. Goods transport by Government Departments needs to be planned more efficiently to reduce empty rail mileage. A phased programme for the progressive elimination of losses in the Railway linked to specific operational and policy measures will be prepared in the coming year.

For **Port development** an allocation of Rs. 19·2 million has been made The major items of development activity are the Development of Colombo Port and construction of Galle, and KKS Harbours. The Colombo Port development generally follows the recommendations made by NEDECO consultants; a firm engaged by the Ceylon Government in 1960, Warehouse capacity and lighter handling capacity are being increased in relation to the forecast of future increases in cargo handling. The project has been reformulated with a shift in the priorities in order to expedite work on the extension of quays and provision of alongside berths. At the same time Government is actively examining the feasibility of providing cargo handling facilities for containerised cargo. The prospect of a pivot port in Ceylon for handling of containerised cargo in the region have been highlighted by several visiting teams of experts. An official Committee has been appointed to formulate a project on which action could be immediately initiated. Port facilities for containerised cargo fall into the category of projects which could have a high potential for foreign exchange earning and therefore should command high priority.

In the field of **telecommunication**, work on the Greater Colombo Telecommunication Programme will be completed in 1967–68. The project for the installation of an all Island inter-dialling system has been modified into a scheme which would provide inter-dialling facilities for the Central, Western and Southern provinces. The smaller scheme has selected priority areas with a high density of telecommunication traffic. Work on this project will commence in 1967–68. The total allocation for investment on telecommunication amounts to Rs. 15·3 million.

In **Civil Aviation** the balance work on the Terminal Building at Katunayake will be completed in 1967–68. The capital budget has made an allocation of approximately Rs. 15·8 million for the investments by the Civil Aviation Department.

TABLE III

SUMMARY OF PROGRAMMES IN 1967–68 BUDGET—ECONOMIC OVERHEADS

Programme	1967–68 Budget		1966–67 Allocation Rs. Million
	Programme	Allocation Rs. Million	
1. Power			
(*a*) Hydro Electric Stage IIB—50 MW	Continuation Work	13·50	64.0
(*b*) Thermal 2nd Set 25 MW	Continuation Work	0·75	
(*c*) Maskeliya Stage I 75 MW	Continuation Work	42·80	
(*d*) Maskeliya Transmission Line No. 1	Continuation Work	18·82	
(*e*) Maskeliya Stages II and III—75 MW and 25 MW Investigations	Investigations and preparation of designs	3·20	
(*f*) Rural Electrification (Reserve Extensions and Renewals Fund)	Continuation Work on 50 villages	(Extra Budgetary)	(Extra Budgetary)
(*g*) Other Investments		1·25	
		80·32	

TABLE III—(*Contd.*)

SUMMARY OF PROGRAMMES IN 1967–68 BUDGET—ECONOMIC OVERHEADS

Programme	1967–68 Budget		1966–67 Allocation Rs. Million
	Programme	Allocation Rs. Million	
2. **Transportation**			
(i) *Railway*			
(*a*) Way and Works and Track Improvement and Renewal	Continuation Works	14·6	
(*b*) Rolling Stock and Locomotives including 87 Diesel locomotives		9·5	
(*c*) Transportation		·9	
(*d*) Railway Stations		3·3	*34·5*
(*e*) Signalling and Communications including extension of colour lights		1·0	
(*f*) Plant and Machinery for repair and renewal of Rolling and Locomotive Stock		1·2	
(*g*) Other Investments		·7	
		31·3	*34·5*
(ii) *P.W.D. Roads and Bridges*			
(*a*) Rectification of defects—Roads and Bridges	Implementation of Wilbur Smith Programme	8·4	*17·0*
(*b*) Pre-mix surfacing of roads	60 miles	4·3	*9·0*
(*c*) D.R.C., P.R.C. and Minor roads		4·3	*6·0*
(*d*) Other continuation works on roads and bridges	Continuation	6·1	*6·3*
(*e*) New Plant and Equipment	Procurement of equipment	4·6	*5·0*
(*f*) Roads, culverts, &c.—Construction by Kandyan Peasantry Commission, Land Commissioner, and Irrigation Department		7·6	*3·7*
		35·3	*31·5**

(iii) *Civil Aviation*			
(*a*) Airways Communication	Replacement and improvement of equipment	2·1	*2·2*
(*b*) Katunayake Airport	Completion of work	12·2	*28·0*
(*c*) Airport Development	Runway lighting and equipment	1·5	*·65*
		15·8	*30·6**
(iv) *Ports*			
(*a*) Improvements to existing facilities and provision of new facilities		4·6	*9·8*
(*b*) Technical Development of Colombo Harbour	Continuation of work	2·8	*2·6*
(*c*) Trincomalee Harbour	Continuation of work	·5	*·4*
(*d*) Galle Harbour	Continuation of work	4·1	*4·2*
(*e*) K.K.S. Harbour	Commencement of work	4·0	*2·0*
(*f*) Other Investments		3·2	*1·4*
		19·2	*20·4*
3. **Posts and Telecommunication**			
(*a*) Greater Colombo Area	Completion of work	2·6	*7·6*
(*b*) All-Island Dialling Scheme	Commencement of work	7·2	*·1*
(*c*) Overseas Telecommunication Improvements	Continuation of work	2·4	*2·0*
(*d*) Postal Buildings	Continuation of work	5·0	*7·7*
(*e*) Telecommunication Services Development	Continuation of work	3·0	*3·0*
(*f*) Other Investments		·1	*1·4*
		20·3	*18·01**
4. **Tourism**		3·6	*3·0*
	Total for sector	205·8	

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* The totals show the net provision and not the aggregate of the allocations.

N.B.—The figures given in the functional classification of the Budget will not be comparable with the figures in these Summaries, for all programmes. The allocations shown in the summaries have been adjusted for net figure-in instances where the Budget has made gross provision, e.g. Education Department Votes, P. W. D. Votes. The classification of functions and activities in the budget is also not identical with the programme classification in the summaries.

The Capital Budget has made an allocation of Rs. 3·6 million for the development of **Tourism**. The allocations will finance the investments proposed by the Tourist Board ; they include the development of tourist resorts at Bentota and Trincomalee and the provision of en route amenities to tourists on the major trunk roads. The large-scale investment on hotels will be financed by foreign investors and the local private sector. A programme has already been drawn for the construction of 4 large hotels with 800 rooms and smaller hotels with 200 rooms. These investments will fit into a well integrated tourist promotion drive which aims at increasing the tourist inflow to 54,000 persons by 1970, and the gross foreign exchange earnings from the industry to about 45 million rupees.

(iv) **Social Services**

A proper appraisal of the investment on Social Services by Government has to take into account the heavy recurrent outlays on these services particularly health and education. The share of the recurrent budget for the provision of these services had declined from 27·9 per cent in 1960–61 to 22 per cent in 1964–65. In 1967–68 the recurrent expenditure on these services is maintained at 22 per cent of the recurrent budget. The capital allocation for health and education will have to be derived from the programme for the expansion and improvement of the services. Costs perhead of population for health and education have been increasing over the years,partly reflecting the improvement and intensification of the services. New programmes are now being formulated for each of these sectors taking into account the commitment for the expanding population on a service maintained at present levels, and the additional commitment on the essential improvements in the quality of the services particularly in relation to education.

The dramatic decline in mortality rates, the increase in life expectancy, the results of the special campaigns against malaria, filaria, tuberculosis, etc., and the virtual elimination of epidemic diseases are indications of the relatively satisfactory level of medical services in the country. Per capita expenditure on health has risen from Rs. 15·40 in 1960–61 to an estimate of Rs. 16·00 in 1967–68. Therefore the capital programme will be directed primarily to the expansion of services to meet the requirements of the increasing population at present levels. The extension of facilities for treatment of outdoor patients will be confined to the committed programme already undertaken. The more important element in the programme is the provision of indoor medical facilities. An additional bed strength of approximately 800 beds a year is being planned to maintain these facilities at present per capita levels. These facilities will be provided in base hospitals where existing amenities and skills could bring the best return on this investment. The programme on health services has also to take into account the expansion in medical services that will take place in the non-Government sector. With the additional out-turn of doctors all of whom will not be absorbed into Government Service, the number of doctors in private practice is likely to increase by a substantial number by the end of the next 5 years. Incentives have also been given for the establishment of Co-operative medical institutions. The expansion of Ayurvedic medical services will meet some part of the medical needs of the population and to that extent will reduce the pressure on the western medical services.

A sum of Rs. 7·1 million has been allocated for urban **water supply** which is an important constituent in the health and sanitation programme. A pre-investment survey for a major water supply scheme for approximately 50 towns on the South-Western coastal belt in Ceylon has been initiated with the assistance from the U.N. Special Fund. The total cost of the scheme which will be phased over several years will be in the region of Rs. 300 million. It is designed to benefit an urban and sub-urban population of approximately 1·5 million. Simultaneous action is being taken to implement policies which will enable local authorities to contribute to the installation of these services and finance their maintenance so as to reduce the burden on the budget of the Central Government.

The total capital allocation for **educational services** in 1967–68 is Rs. 38·3 million. The total recurrent expenditure that has been voted for education in 1967–68 is Rs. 385 million as against Rs. 362 million in 1966–67. Significant changes in the educational structure were initiated by Government in the current year ; the new policies are now being formulated in detail for early implementation. These changes include a diversification of the educational structure after secondary education in order to produce the trained manpower necessary for the planned development of the economy. At the level of general education itself administrative action is being taken to shift the emphasis from education in the arts to education in the sciences and to improve the content of education by an increase in the cadres of trained staff as well as a continuing programme for the improvement of curricula. Investments on the construction of the Science Laboratories, the provision of equipment, and expansion of teacher training facilities have been included in the 1967–68 budget. The original programme for modification of the general education stream has had to be adjusted in terms of a realistic assessment of the capacities for science teaching, and teacher training during the next few years. Work will continue on the programme for establishing institutions for technical education. Work on the College of Technology is in progress, and six Junior Technical Schools are being constructed. Rs. 13 million has been provided for new school buildings, as well as additions and improvements to existing school buildings to accommodate the increase of the school-going population at the Elementary and Secondary levels. Rs. 7·8 million has been allocated for the capital programme on technical education.

A National Council of Higher Education has been established to formulate educational policy for the institutions of higher education and co-ordinate its implementation. Rs. 6·6 million has been allocated for Higher Education.

A more detailed long-term programme of expenditure on education will be prepared in the coming year. The school-going population has been rapidly expanding, both on account of general population increases, and as a result of the increasing enrolment of pupils and their retention in the educational stream beyond the elementary level. With the improvement in the quality of education the pressures for secondary and post-secondary education will steadily increase. Action is being taken to prepare a detailed programme of man-power development to ensure the best returns on the investment in education, to make a realistic estimate of the resources required to finance such a programme over a long period, and assess its impact on the allocation of resources for other development activity.

The allocations for **housing** include investments made by the National Housing Department, the capital expenditure on staff quarters, the subsidies for rural housing made by the Land Commissioner, and the grants given to local authorities for housing purposes. The total provision amounts to 32·6 million. This figure however does not include the allocation for housing in new agricultural settlements, both under the irrigation reservoir schemes, and the multi-purpose river valley projects.

The allocation to the National Housing Department for the next year has been maintained at the current level. The Housing Department will complete the major portion of work on the housing schemes now in progress and continue its programme of loans to individual house builders. The number of loans has increased from an average of 750 in the period 1960–65 to approximately 3,000 in 1966. The housing schemes constructed by the Department will provide approximately 1,800 housing units when completed. At the same time action is being taken to reconstitute the National Housing Fund on a more viable and self-reliant basis. The work on the schemes for the reclamation of low lying land in and around Colombo for house construction will commence in 1967–68. These projects will be operated on a commercial basis and will provide funds which could finance housing activities. The availability of land for house construction at reasonable prices will also provide an added incentive to construction in the private sector.

The investment for local government and other urban and rural utility work is approximately Rs. 23·4 million . These allocations contain a large number of rural works including roads, minor water supply schemes, community centres, etc., and are undertaken by a number of agencies including the local authorities, the Kandyan Peasantry Commission, the Land Commissioner, and the Rural Development Department. Action is being initiated to co-ordinate this investment on the basis of sound village and district planning in order to ensure that the best use is made of the capital expenditure that is being incurred.

TABLE IV

SUMMARY OF PROGRAMMES IN 1967–68 BUDGET—SOCIAL SERVICES

Programme	1967–68 Budget		1966–67 Allocations Rs. Million
	Programme	Allocations Rs. Million	
1. **Health**			
Curative Services—			
Western	Buildings for medical institutions, Water supply for medical institutions, Equipment for medical institutions	16·58	*22·5*
Ayurveda	Extensions to General Hospital and Construction of provincial hospitals	0·26	*2·0*
Water Supply and Sewerage ..	Work on 32 Urban water supply schemes Work on 44 Rural water supply schemes	7·10	*13.7*
		23·94	
2. **Education**			
(i) Higher	Ceylon University : buildings and equipment for Teachers Hospital, second Medical School and Faculty of Engineering Vidyalankara and Vidyodaya Universities : land, buildings and equipment	6·6	*7·7*
(ii) General	Construction of permanent buildings, extensions of existing buildings, equipment, etc., for elementary and secondary education (including Junior Universities) and Teacher Training	24·0	*31·1*
(iii) Technical	Buildings and Equipment for College of Technology, Junior Technical Schools, Commerce Schools, Trade Schools and Training Institute	7·18	*4·9*
(iv) Administrative, Research and Development, etc.		0·60	
		38·38	

TABLE IV—(*Contd.*)

SUMMARY OF PROGRAMMES IN 1967-68 BUDGET—SOCIAL SERVICES

Programme	1967–68 Budget		1966–67 Allocations Rs. Million
	Programme	Allocations Rs. Million	
3. Housing			
(i) National Housing Department ..	Continuation work on Ratmalana, Wanathamulla and Anderson Golf Link Schemes for working class and middle class houses—1,800 housing units. Acquisition of lands. Housing loans for new housing units	15·0	*15·0*
(ii) Housing	Government Quarters	7·4	
	Local Government housing and slum clearance	2·9	*9·2*
(iii) Village Expansion Housing ..		6·80	*6·0*
(v) Drainage schemes		*Token Votes*	
		32·10	
4. Local Government			
(i) Grants to local authorities for Village works, sewerage, public amenities		11·70	*10·8*
(ii) Loans to the local loans and development fund		5·0	*5·0*
		16·70	
5. Government assistance for rural housing, village development, etc.			
(i) Rural Development			*1·8*
(ii) Anuradhapura Preservation Board and development of other sacred areas	Continuation work	1·80 4·30	*2·0*
(iii) Probation and Child Care and Social Services		·60	*·2*
		6·70	
	Total for Sector	117·82	

N.B.—The figures given in the functional classification of the Budget will not be comparable with the figures in these Summaries, for all programmes. The allocations shown in the summaries have been adjusted for net figures in instances where the Budget has made gross provision, e.g. Education Department Votes, P. W. D. Votes. The classification of functions and activities in the Budget is also not identical with the programme classification in the summaries.

(v) Other Overheads

The allocation for other overheads which include Administration, Justice, Defence, Police, etc., is approximately Rs. 34·2 million for 1967–68. An important item in this allocation is the programme of administrative buildings. Provision has been made for a programme of construction which will provide approximately 500,000 sq. ft. of office accommodation in Colombo during the next 5 years. In the past few years there had been very little investment on the construction of new office buildings to meet the needs of an expanding administration. As a result, location of Government offices, as well as the accommodation available has not been conducive to efficient administration. The new programme will reduce the expenditure on office rentals which amounts to approximately Rs. 2·5 million a year, release space in the city for commercial activities, and make it possible to locate a number of Government Ministries and Departments in close proximity to each other so as to facilitate transaction of business by Government Departments as well as the public.

TABLE V

SUMMARY OF PROGRAMMES IN 1967-68 BUDGET—OTHER OVERHEADS

Programme	1967–68 Budget		1966–67 Allocation Rs. Million
	Programme	Allocation Rs. Million	
1. **Other Overheads**			
Administrative Buildings		16·9	*13·0*
Defence		7·6	*10·7*
Other Investments		9·7	*9·4*
		34·2	*33·6*

N.B.—The figures given in the functional classification of the Budget will not be comparable with the figures in these Summaries, for all programmes. The allocations shown in the summaries have been adjusted for net figure in instances where the Budget has made gross provision, e.g. Education Department Votes, P. W. D. Votes. The classification of functions and activities in the Budget is also not identical with the programme classification in the summaries.

III

IMPLEMENTATION OF THE PROGRAMME FOR 1967–68

The Capital Budget for 1967-68 has developed the themes which were already present in the Capital Budget for 1966-67. In the Sectoral Summaries that have been provided, the development activity in the productive sector during 1967-68 is related to provisional targets of output set for 1970, which in turn are derived from the programmes and projects either already undertaken or planned for early implementation. However, a composite set of firm targets for sectoral outputs will emerge from the inter-sectoral model for the economy on which work is now in progress.

For successful implementation, the allocations in the capital budget have to be linked with the Foreign Exchange Budget and the import programme for 1968. Part of the foreign exchange component in the Capital Budget will be financed out of project aid which is estimated at Rs. 125 million for 1967-68. This will include aid already negotiated for the Cast Iron Foundry, the Paper Board Mill, the Integrated Textile Mill, Katunayake Airport, Maskeliya Stage I and investigations for Maskeliya Stages II and III, etc. The estimate also includes aid to be negotiated for the Plywood Project, for a Roads and Bridges Programme, for the Lift Irrigation and the Drainage and Reclamation Projects, a Fisheries Project, a Steel Foundry and Structural Shop, a Chipboard plant, etc. The foreign exchange component of a number of projects will be financed on long term commercial credits. These inculde the machinery component of the Irrigation programme, Diesel locomotives, Maskeliya Transmission lines, the Telecommunication Project for the Central, Western and Southern provinces, the Fertiliser Manufacturing Project, the Refinery, the Blending Plant, Puttalam Cement Factory Stage I, the Galle fisheries project etc. Part of the equipment and motor vehicles required by Government Departments and Corporations have been fitted into Commodity Aid programmes. Therefore it will be seen that external assistance plays a major role in the financing of the development Budget for 1967–68, and that the public sector capital expenditure will not constitute a heavy burden on the country's own foreign exchange resources during 1967–68. However import allocations would have to ensure an adequate supply of construction materials and equipment to meet the demands of the development programme.

The Estimate of under-expenditure for 1967–68 assumes that approximately Rs. 667 million will be spent out of a total allocation of Rs. 782.5 million. As against the capital expenditure of Rs. 528 million for 1965–66, an increase of approximately Rs. 140 million is anticipated. Over the two years 1966–67 and 1967–68 there has to be an expansion of approximately 27 per cent in the operational capacities of Government organisation and other agencies involved in the implementation of the investment programmes. A major portion of the under-expenditure on past capital budgets could be attributed to the shortfalls on the construction components of the programmes contained in these budgets. Capacities in the local construction organisations do not appear to have kept pace with the construction needs of the development programmes. The contract system that prevailed also appears to have inhibited large-scale investment in the construction industry of the private sector. Often, the construction activities undertaken or managed by Government Departments have not been planned in adequate detail and supervised in terms of firm time-schedules.

Provision has been made for the expansion of capacity in construction organisations both in the public and private sectors by releasing foreign exchange for the importation of a large stock of construction equipment, the value of which is estimated at approximately Rs. 40 million. The needs of the small scale construction industry for building equipment of various types are being assessed for inclusion in the import programme. On certain programmes contracts have been organised to provide for some continuity of work which will promote the growth of adequately capitalised and well equipped construction organisations. The realisation of the objectives set out in the development programme calls for administrative action which is disciplined within firm time-schedules and a framework of output and performance targets. Towards this end work on the projects and programmes will be related to quarterly targets of performance, and the progress will be intensively supervised and evaluated by the operating Ministries and reviewed by the Planning Ministry during 1967-68. The construction component will claim special attention in this task. During the coming year the services of a U. N. expert will be made available to Ministries to assist in introducing improved methods of programming and effective systems of progress control. In 1966–67 the Department of Plan Implementation undertook a review of progress on selected projects in the major Development Ministries. In the coming year Capital Budgets of all Departments will come under review, and a more comprehensive evaluation of progress on the total investment programme will be undertaken. At the same time progress on production targets set for public sector enterprises and other Government sponsored projects, which are related to the Country's import programme will be monitored closely.

A considerable portion of the investments planned in the Government capital budget is directed to programmes which will increase production in the private sector. Almost the entire investment on agriculture is of this kind. The replanting and rehabilitation schemes for plantation agriculture, the extension programmes for domestic agriculture, the reservoir schemes for small-holder paddy cultivation, harbours for fishing, the allocations for industrial research and promotion, the development of the infrastructure for tourism will all support private sector activity and investment. Government has also sponsored programmes to organise large-scale private sector effort in fields in which little enterprise had been shown in the past. Private sector investment has been mobilised for the import substitution drive in subsidiary foodcrops, milk, etc. The development of the Tourist industry will rely largely on private sector resources. The Government has set up machinery to associate the private sector more directly in the planning activity both at the stage of formulation as well as execution. A Development Advisory Council which includes representatives from private sector industry, agriculture, commerce, etc. has been established. A Private Sector Division has been organised in the Ministry of Planning to service this Council, co-ordinate the government functions in regard to private sector programmes, help to demarcate new areas for private sector enterprise and assist in creating the right institutional framework to maximise the contribution of the private sector to the development of the economy.

The magnitude of the Government Budget which represents 30 per cent of the national expenditure, and the volume of public sector investments which is approximately 50 per cent of total capital formation, emphasise the need for continued improvement in the quality of public sector administration. A number of programmes have been initiated to impart the new disciplines required for the management of development activities and to provide the background of economic concepts to officials involved in the formulation of sector programmes and policies. With the establishment of the Academy for Administrative Studies, a start has been made in providing a more comprehensive management training to public servants. An intensive training course organised by the U.N. Centre of Industrial Development, for technical and administrative officers in development departments and Public Sector Corporations introduced them to new techniques of project preparation and evaluation. Towards the end of the current year, the Asian Development Institute will conduct a two month course in Ceylon on development planning and administration for officers drawn from various Ministries and Departments. The Management Development and Productivity Centre which is being established within the Ministry of Industries and which will commence work in 1968 will cater to the training needs of both the public and private sectors. Personnel under the U.N. Special Fund project for Planning, while assisting the Planning Ministry in its activities will extend their services to operating Ministries. They will assist in the formation and strengthening of programming units in the Ministries which are designed to improve the quality of sector programmes both in regard to their project and policy content, as well as their implementation and management. This project will be in operation in 1968. All these efforts need to be directed into a more intensive drive for the development of management skills throughout the administration and the creation of modern management cadres equipped to engineer the necessary economic and social changes.

APPENDIX 'A'

Items of production in respect of which approval has been granted for the establishment of local industrial undertakings

Fruit canning, Jam and Jellies, Cordials, Sauces, Preserved Vegetables

Liquid Glucose

Ice

Silk and synthetic Textiles weaving and finishing

Sakkarai, Juggary, Syrup from sugar cane, Fruit Syrups, Soups, Palmyrah Fruit Jam, Sugar Candy, Candied peel, Ginger Preserves

Fertilizer

Printing Ink

Wooden Parquet Flooring, Impregnation and conversion of timber

Pallets for Tea exports and Furniture for export

Paper Board, Straw board

Writing Paper, Paper Boards, Pulp goods

Cement Concrete Pipes

Reinforced Concrete Products

Sand Paper

Welding Electrodes

Flushing Cisterns

Cast iron clad Electric Switch Boxes

Mist Blowers and Knapsack sprayers

Dies, Press Tools

Fire Fighting appliances

Kerosene outboard Motors

Rubberised fibre

Carbon Paper

Typewriter Ribbons

APPENDIX 'B'

Items of production in respect of which approval has been granted for the establishment of industrial undertakings with foreign collaboration

- Printing and Distemper Brushes
- Torch, Radio and Transister Batteries
- Motor car assembly
- Glass sheets, pane glass, white container bottles, Tumblers, shells for bulbs, chimney globes, bottles and jars, Table glassware, Roofing tiles, Laboratory glassware
- Artificial Leather cloth
- Frozen Sea foods (export)
- Electric bulbs
- Jeeps
- Aluminium flat sheets
- Pesticides, Fungicides, Inseticides, Weedicides
- Sewing machines
- Garments (export)
- Cotton Yarn and Cotton Textiles
- Galvanised Iron Sheets
- Refrigerators
- Elecric ceiling fans
- Corrugated cartons